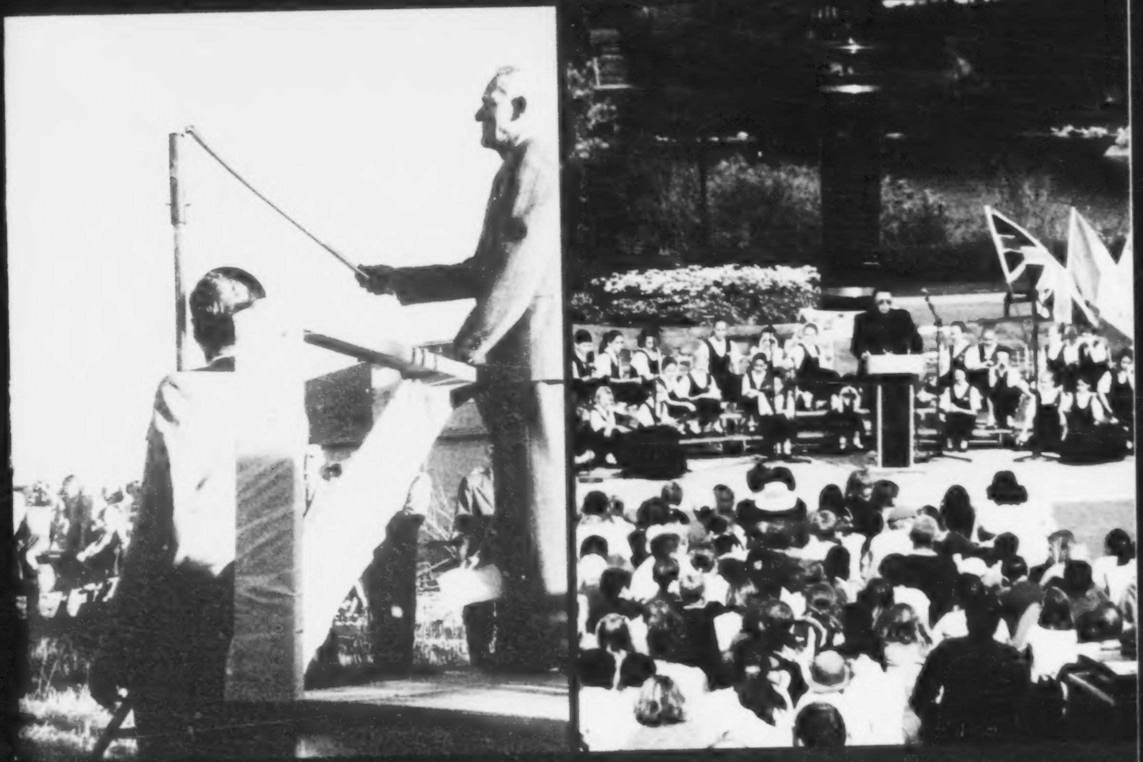
CORPORATE SOCIAL
RESPONSIBILITY REPORT
2002

SaskEnergy

50 YEARS OF NATURAL GAS SERVICE



# BUILDING OUR LEGACY

To help build our Province's communities for the future, SaskEnergy will take a balanced approach, focusing on four key areas of our Corporate Social Responsibility: community involvement, human resources, corporate services and standards, and the environment. By measuring our successes and identifying targets for the future, we can chart our progress and strengthen Saskatchewan's community infrastructure.

## GROWING OUR COMMUNITIES

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Demonstrate a Philosophy of Corporate Social Responsibility | Community Relations Investment ($ millions) | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| | Number of Projects Supported | 952 | 500 | 900 | 900 | 900 | 900 | 900 |
| | Number of Communities Impacted | 212 | 100 | 200 | 200 | 200 | 200 | 200 |
| | Volunteer Hours Donated by SEI/TGL Employees | 4,876 | 4,100 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 |

## DEVELOPING OUR PEOPLE

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Demonstrate a Philosophy of Corporate Social Responsibility | Diversity Hires | 46% | 30% | 32% | 34% | 36% | 38% | 40% |
| | Representative Workforce | *Percentage (%) for the following to be calculated yearly on December 31st.* | | | | | | |
| | - Aboriginal | 9.0% | 9.2% | 9.7% | 10.1% | 10.7% | 11.2% | 11.7% |
| | - Women | 39.0% | 40.0% | 40.0% | 41.0% | 42.0% | 42.0% | 43.0% |
| | - People with Disabilities | 4.0% | 4.2% | 4.4% | 4.6% | 4.9% | 5.1% | 5.4% |
| | - Visible Minorities | 2.0% | 1.2% | 1.3% | 1.5% | 1.6% | 1.8% | 1.9% |
| Employees Will Work in a Safe, Healthy and Rewarding Environment | Lost Time Frequency Rate | 2.12 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Preventable Vehicle Collision Frequency Rate | 2.41 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Percentage of Employees Who Receive Enhanced Training | 86% | 74% | 76% | 78% | 80% | 80% | 80% |

## STRENGTHENING OUR TIES

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Demonstrate a Philosophy of Corporate Social Responsibility | % Goods/Services Sourced in Saskatchewan | 71% | 81% | 81% | 81% | 81% | 81% | 81% |
| | Awarded Contracts - % Aboriginal Labour Content | 18% | 32% | 32% | 32% | 32% | 32% | 32% |
| Maximize Value of Goods Purchased | Salvage Program Savings | $87,500 | $41,000 | $90,000 | $90,000 | $90,000 | $90,000 | $90,000 |
| | Purchasing Savings | $450,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 |

## PRESERVING OUR ENVIRONMENT

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Incorporate Environmental Stewardship into Our Business Practices | Annual Greenhouse Gas Emission Reduction (tonnes) | 10,930 | 17,000 | 16,500 | 10,000 | 10,000 | 11,000 | 11,000 |
| | Cumulative Greenhouse Gas Emission Reduction (tonnes) | 127,385 | 133,455 | 143,885 | 153,885 | 163,885 | 174,885 | 185,885 |
| | % of Overall 2012 Kyoto Target | 55.4% | 58.0% | 62.5% | 66.9% | 71.2% | 76.0% | 80.8% |

The numbers help track our progress. But the stories behind them are what give us our "energy." Read on to learn more about how SaskEnergy is building a legacy of Corporate Social Responsibility that touches the lives of people right across our Province.

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# FULFILLING OUR PROMISE

In 1952, the Government of Saskatchewan made a promise to residents of the Province: to provide safe, efficient and cost-effective natural gas transmission and distribution to as many communities as possible. Fifty years later, the resulting legacy is a provincially operated natural gas transmission and distribution infrastructure that safely and reliably supplies natural gas to over 90% of Saskatchewan communities at an annual cost that is consistently one of the lowest in Canada.

But a company can fulfill its promise in another sense of the phrase – by *living up to its full potential*. As a Crown corporation, we are responsible to the residents of our Province, and in a way, we are also responsible for the people of Saskatchewan. This puts us in a unique position, because if we live up to our potential, we make the Province a better place for everyone.

By growing our communities, developing our people, strengthening our ties within Saskatchewan, and preserving our environment, we're supporting another legacy – a lasting community infrastructure that stretches across Saskatchewan and provides a different type of warmth for people throughout the Province.

# Growing Our Communities

In one sense, community involvement means *getting our communities involved* to realize the potential that lies within them. Every time we work with community groups to gather and distribute sweaters for the less fortunate, or hold a peace picnic that causes children to think about the world around them, or set an example by organizing a blood donor challenge, we get communities involved and strengthen the social fabric of our Province.

But community involvement also means *getting involved in communities* as a Corporation. Sponsoring events throughout Saskatchewan, supporting organizations that benefit the province, volunteering our time and energy to help others – these are all ways we involve ourselves as a company in our communities. By investing our financial, organizational and volunteer resources in local communities, our community involvement helps make our Province a better place to live.

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### *Getting Our Communities Involved*

Every year, we spend over a million dollars on hundreds of sponsorships through our *Share the Warmth Fund, General Sponsorship Fund* and *Aboriginal Sponsorship Fund*. In 2002 alone, we helped make possible more than 950 projects in over 200 Saskatchewan communities.

The SaskEnergy Share the Warmth Recycling Project and Hear the Children Peace Day were two of these programs that carried on the tradition of involving our communities in the life of the Province.

The Share the Warmth campaign has become one of the most vital community projects in Saskatchewan. This year, volunteers, schools and community groups collected more than 130,000 sweaters, toques, mittens, scarves, blankets and children's books for less fortunate families. Thanks to this overwhelming community support, the Share the Warmth Recycling Project has collected more than half a million items in its nine-year history.

Community participation also hit record levels, with groups like the Lions Clubs and Girl Guides helping spearhead the campaign. Together, our employees and our communities showed the spirit that defines Saskatchewan, and in doing so they continued a proud tradition of helping to weave a strong social fabric in our Province.

*In co-operation with the Saskatchewan Abilities Council and the Pigs in the City promotion, SaskEnergy volunteers wrapped up Saskatoon's larger than life formed pigs in warm blankets to kick off the 2002 Share the Warmth Recycling Campaign.*

A SaskEnergy
Share
the warmth
SaskEnergy
Share
the warmth
SaskEnergy

## ALLISON SAMOLESKI

CUSTOMER SERVICE REPRESENTATIVE
SASKENERGY - PRINCE ALBERT

"By volunteering for the Share the Warmth Recycling Project, you know you're helping people out, and that in a small way you've made their lives a bit easier. When a young mother who can't afford a winter coat for her son is able to find one through the recycling program, that makes it all worthwhile. The response from the community is overwhelming as year after year people open their hearts to those in need."

*Volunteers helped collect, sort and distribute mountains of "warm fuzzies" during the record-setting 2002 Share the Warmth Recycling Project.*

**Number of Schools Participating in Share the Warmth Campaign**

| | |
|---|---|
| 2001 | 206 |
| 2002 (projected) | 200 |
| 2002 (actual) | 284 |
| 2003 (projected) | 200 |

SaskEnergy continued another important tradition in 2002 by helping children celebrate peace. On September 17, more than 1,000 children gathered in Saskatoon for Hear the Children Peace Day, an event organized by SaskEnergy and a number of community groups.

*"Peace occurs when we do not exclude certain people or groups because of their differences, we talk things out instead of fighting, we care for others, we share with others, we forgive others, and we love others."*

*Joeleen Rayner,*
*Georges Vanier School*

Children created peace scrolls which the Canadian Red Cross will send to war-torn countries and videotaped peace messages for delivery to world leaders including the Premier of Saskatchewan, the Prime Minister of Canada and the United Nations Secretary-General. Over 125 volunteers from SaskEnergy and other organizations in Saskatoon helped to make "Hear the Children Peace Day" a success, but more importantly, our Province's future leaders actively voiced their wishes for caring communities and a peaceful world.

**Imagine A Caring Company**

*Imagine is a voluntary program designed by the Canadian Centre for Philanthropy to encourage Canadian businesses to direct a minimum of 1% of pre-tax profits to charitable or not-for-profit causes. SaskEnergy is committed to contributing a minimum of 1.5% to Saskatchewan communities.*

## SaskEnergy's Commitment to Saskatchewan Communities

| | 2001 | 2002 (projected) | 2002 (actual) | 2003 (projected) |
|---|---|---|---|---|
| Total community relations investment | $1,061,163 | $1,027,950 | 1,102,517 | 1,312,200 |
| % of budgeted annual profits | 1.5% | 1.5% | 2.1% | 1.6% |

### *Getting Involved in Our Communities*

Just as children should have warm clothing and a safe environment, so should they have the chance to learn the values that sport and athletic endeavour can engender.

The SaskEnergy Catch for Kids program raises money for KidSport™ Saskatchewan, a non-profit group that helps underprivileged children participate in community sports programs across the Province.

In its fifth year, a record total of almost $36,000 was raised through the contributions of individuals and the onfield performance of the Saskatchewan Roughriders. As the official SaskEnergy Catch for Kids ambassadors, Saskatchewan Roughriders Nealon Greene and Paul McCallum attended community barbecues across the province and helped launch "Bobby," the limited edition bobblehead doll that was sold to raise funds for Catch for Kids. Since 1998, the SaskEnergy Catch for Kids program has raised $104,283 for KidSport™ and helped over 1,400 children learn values such as teamwork, dedication and self-esteem through sport.

*The 2002 SaskEnergy Catch for Kids program kicked off on June 25 at Connaught School in Regina, where excited schoolchildren received footballs autographed by Catch for Kids ambassadors Paul McCallum and Nealon Greene.*

SaskEnergy
OF 5000
CATCH FOR KIDS

*Bobblehead sales helped the SaskEnergy Catch for Kids program raise a record $35,499.58 for KidSport™ Saskatchewan.*

*In September, Heather McInnis, co-ordinator of SaskEnergy's blood donation program, travelled to Ottawa to receive an "Honouring Our Life Blood" award from Canadian Blood Services. SaskEnergy was one of only two Canadian companies recognized for their dedication to Canadian Blood Services.*

2002 also gave SaskEnergy the opportunity to celebrate a decade as "the Official Supplier of Warmth" to Camp Easter Seal near Watrous. Each year, Camp Easter Seal allows approximately 800 physically challenged children and adults to enjoy typical camp activities that most people take for granted, all in a safe, supportive and fun environment.

This year, our $5,500 donation brought the 11-year total to nearly $60,000. As well, the spring perennials we donated will serve as an ongoing symbol of SaskEnergy's commitment to Camp Easter Seal and its attendees.

In 2002 we branched out in some exciting new directions. For the past 10 summers, groups of dedicated individuals across Saskatchewan collected pledges and scheduled rides on the 31-seat Big Bike to raise funds for the Heart and Stroke Foundation of Saskatchewan. In 2002, we joined forces with the Foundation to start the wheels turning on the SaskEnergy HeartBeat Tour.

*The SaskEnergy HeartBeat Tour 2002 officially began with the Big Bike Blast Media Launch in Regina at the Saskatchewan Legislature on May 3. Saskatchewan's Minister of Health John Nilson joined 30 others on the Big Bike for a ceremonial first ride.*

*Province-wide, SaskEnergy/TransGas' 2002 fundraising campaign raised over $100,000 for the United Way. The United Way of Regina recognized the Corporation's fundraising efforts by presenting the Spirit Award for Excellence in a Joint Union-Management Workplace Campaign to SaskEnergy/TransGas. Colleen Huber and Sharon Yee accepted the award on behalf of the employees whose contributions to the Regina area's "Givin' is Groovy" campaign raised $90,862.*

We hosted community barbecues at over 20 of the rides throughout the summer to encourage people to participate. In addition, through promotional and financial assistance, we enabled the Big Bike and the Heart and Stroke Foundation's natural gas-powered van to visit a record 52 Saskatchewan communities, where dedicated participants raised an average of $2,300 per group ride. By the end of the tour, 133 rides on the Big Bike had taken place throughout Saskatchewan, raising a record $316,302 for the Foundation.

A healthy Province is also one with a vibrant artistic community, and accordingly, we supported the Regina Globe Theatre by becoming the presenting sponsor of its fifth annual *Lanterns on the Lake* festival. Our funding helped showcase the artistic talents of people in the Regina area, and our employees hosted a free barbecue for all organizers and volunteers. Many of our employees and their families volunteered to help organize the event and create lanterns for display. The resulting spectacle, a night-time parade of hand-made lanterns through Wascana Park in Regina, raised both awareness and funds for the city's theatre community.

*In 2002, SaskEnergy was the presenting sponsor of the Globe Theatre's fifth annual Lanterns on the Lake. Hundreds of children from the Regina area showed their creativity by constructing hand-made lanterns to help light up Wascana Park on the night of August 24.*

Our commitments often bring the helping hands and open hearts of employees, on top of financial support. Every year, nearly half of SaskEnergy and TransGas employees devote their time and energy to volunteering for company-initiated community activities. By getting involved in our communities and at the same time getting our communities actively involved in the life of the Province, our employees are helping to build a legacy of caring, co-operation and community pride for Saskatchewan people.

As a company and as individuals, we'll continue to make a difference in 2003. In addition to celebrating the tenth anniversary of the Share the Warmth Recycling Project, we'll be helping the cities of Moose Jaw and Regina celebrate their centennials. Our involvement in Grey Cup 2003 will bring people together from across the Province. And by undertaking hundreds of other community projects across Saskatchewan, we're aiming to stretch our reach beyond the 212 communities we assisted in 2002.

24 HOUR
STAFF PARKING
ONLY
United Way Day of Caring Project
SaskEnergy Employees
At Work In Our Community

*On June 5 in Saskatoon and Regina, SaskEnergy and TransGas employees found many different ways to help their communities on United Way Day of Caring. By doing things like serving meals, painting schools, building picnic tables and even landscaping a playground, 89 employees devoted plenty of time and energy to benefit organizations in need.*

## OPERATING IN OUR COMMUNITIES

## GROW WITH US

If your organization would like to apply to the SaskEnergy Share the Warmth Fund, please submit your proposal in writing, by outlining the following:

The project description, name and date(s);
What fund category it falls into, and why (either Education, Community Initiatives, or Saskatchewan Pride);
The individual organization leading the project;
The number of people who benefit;
The dollar amount required in materials, services or sponsorship;
What recognition SaskEnergy will receive for this level of contribution;
Any other available levels of sponsorship;
Other event supporters; and
Contact name(s) and addresses.

Please give us as much advance notice as possible.

Send your written proposal to:
SaskEnergy Share the Warmth Fund
1000-1777 Victoria Avenue
Regina, SK S4P 4K5
Or fax it to: (306) 352-4438

The Share the Warmth Fund generally supports community initiatives or projects with donations up to $2,500. If you have a project that does not fall under this category, or a request for sponsorship that exceeds $2,500, please send your request to SaskEnergy Community Relations, 1000-1777 Victoria Avenue, Regina, SK, S4P 4K5, or fax it to (306) 352-4438.

If you have any questions, please call 777-9378 (collect).

## Developing Our People

Natural resources beneath the ground mean nothing without the human resources on top. Like other leading companies in the industry, we also realize this, so we take a variety of steps to develop a diverse, educated and safety-conscious workforce.

# DEVELOPING OUR PEOPLE

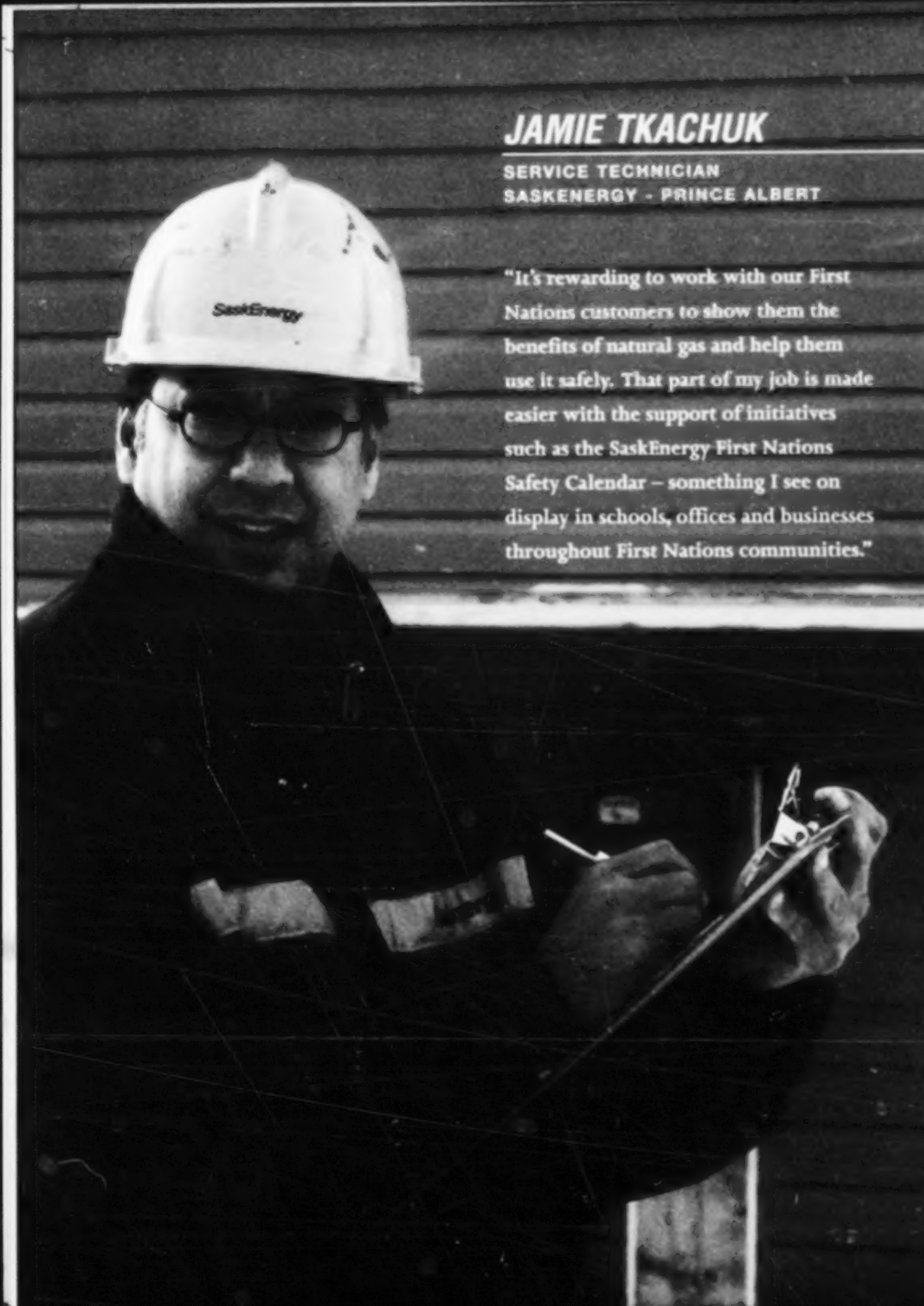
## *Developing Our Workforce*

Since the introduction of an Employment Equity Plan in 1993, SaskEnergy has promoted the participation of the four designated groups and encouraged an inclusive workforce for all employees. During this time, SaskEnergy has invested in a number of initiatives ranging from education/awareness information sessions for employees to partnership agreements with Aboriginal organizations. These examples reflect our approach to diversity, a strategy that has both an internal and an external component.

Internally, SaskEnergy's commitment to diversity centres on encouraging an inclusive and receptive workforce in which every person in the organization embraces this initiative. As well, diversity is viewed not as a moral, social or legislative issue, but as a business imperative. Only with this common understanding can there be substantive progress in the area of diversity.

Over the years, our approach has been successful both at increasing the representation of Aboriginal employees at SaskEnergy and at fostering a positive external image of the Corporation as an "employer of choice" for Aboriginal candidates. Our competitiveness is determined by the talent that we source, motivate and retain. That talent pool will continue to grow in its diversity and will provide SaskEnergy with an opportunity to innovate and evolve in the future.

*Two SaskEnergy employees were among those honoured October 1 at the tenth annual Aboriginal Government Employees' Network (AGEN) conference in Saskatoon. Aven Ross (left), Supplier Development Officer in Purchasing at SaskEnergy, received a Volunteer Service Award in recognition for her community involvement in 2002. Dona Racette (right), Director of Aboriginal Relations at SaskEnergy and one of the founding members of AGEN, was honoured for her longstanding service to the organization.*



## *JAMIE TKACHUK*

SERVICE TECHNICIAN
SASKENERGY - PRINCE ALBERT

"It's rewarding to work with our First Nations customers to show them the benefits of natural gas and help them use it safely. That part of my job is made easier with the support of initiatives such as the SaskEnergy First Nations Safety Calendar – something I see on display in schools, offices and businesses throughout First Nations communities."

Like many organizations today, SaskEnergy/TransGas faces demographic challenges associated with an aging workforce. Since our average employee age is 43, it is becoming increasingly important to position the Corporation as a future employer of choice. To this end, in 2002 Human Resources introduced SaskEnergy/TransGas to young and talented students by participating in approximately 20 career fairs at high schools and post-secondary institutions throughout the Province.

We also continued investing in our employees by enhancing the Corporation's learning culture, something that is critical for our future business success. Technical training was a priority, and a number of SaskEnergy/TransGas employees continued training in the Service Technician, District Mechanic Operator and Control Technician apprenticeship programs. In addition, 15 other technical programs were offered to further train our employees in areas such as carbon monoxide detection, and certify them for activities such as backhoe operation.

2002 also saw the continuation of the Corporation's initiative to develop future leaders. The Supervisory Tools & Techniques Program (STTP) and the Leadership Development Program (LDP) provided a forum for over 50 supervisors and managers to continue to develop and refine their leadership skills. As well, nine senior employees continued their participation in the two-year Leadership Excellence Program (LEP), which is directly linked to the Corporation's overall succession management plan.

*In January 2002, employees from different areas of SaskEnergy/TransGas began the company's fourth Leadership Development Program (LDP4) in order to refine their personal and professional leadership skills. They are scheduled to complete the program in June 2003.*

Our employees' health and safety is the key component of our commitment to employee well-being. In 2002, our Corporation's 22 local Safety, Health and Environment (SHE) Committees ensured compliance with Occupational Health and Safety regulations by identifying workplace hazards, ensuring delivery of all required health and safety training for employees and playing a key role in incident/accident investigations. In addition, the Joint SHE Committee which is comprised of four management and four union representatives continued to provide leadership, guidance and assistance to local SHE Committees.

The results of the 2002 independent safety audit showed that our efforts are working. The 2002 audit, which was a follow-up to a baseline safety audit conducted in 1999, indicated a marked improvement in SaskEnergy/TransGas' workplace safety program over the past few years. In 2003, the Corporation will continue to focus its efforts on eliminating workplace injuries and unsafe work behaviours so it can achieve its goal of a culture of health and safety excellence.

### *Strengthening Our Province*

When our employees undergo training and develop skills and attitudes that help them at work, the impact is felt far beyond the workplace. Practising safety at work, learning a new skill, showing leadership, recognizing that the whole is made up of a lot of diverse parts – these are all things that employees can take back to their families and home communities.

In 2003, through our strategic hiring process we will continue to increase our diversity as a Crown corporation in a Province whose motto is "from many peoples, strength." By developing e-learning strategies, we will increase the flexibility and quality of the training we provide our employees, and at the same time position SaskEnergy/TransGas as a company with a strong culture of learning.

**GROW**
**WITH US**

If you're interested in career opportunities at SaskEnergy, please visit our website at www.saskenergy.com, or call our Human Resources department at (306) 777-9091.

## Strengthening Our Ties

SaskEnergy's Saskatchewan Supplier Development department was created in 1993 to maximize Saskatchewan content in the goods and services we purchase. In 2002, 71% of the products and services sourced by our purchasing department came from Saskatchewan businesses. Of the $34 million spent, almost 80 cents out of every dollar stayed right here in the Province.

## PAUL MERRIMAN

**SUPERVISOR, SALVAGE OPERATIONS**
**SASKENERGY - SASKATOON**

"Through the thINK Food Program, we're able to recycle used printer cartridges and create a stable funding source for the Saskatoon Food Bank. Not a day goes by that one of our customers or a local business doesn't stop by to drop off used cartridges. We're thrilled with the community's response to this program."

## STRENGTHENING OUR TIES

Reviews of bid lists ensure that potential Saskatchewan suppliers are identified and given every opportunity to succeed. If a Saskatchewan business is unavailable, we encourage out-of-Province contractors and suppliers to include Saskatchewan businesses in the sub-contract/sub-assembly processes. The result is a win-win relationship, a mutually beneficial partnership between the Corporation and Saskatchewan businesses.

*Grid Iron Manufacturing Inc., a two-person Saskatoon-based welding, metal fabrication and manufacturing company, has been a SaskEnergy supplier for the past three years. Says Gord Diebert, owner of Grid Iron: "In my experience, SaskEnergy has been awesome in partnering with small Saskatchewan businesses, whether developing, discovering, or creating new machinery and methods, or simply continuing with the tried and true."*

GROW
WITH US

If you would like to find out more information about becoming a supplier or contractor for SaskEnergy, please call us at (306) 777-9388.

### *Working with Saskatchewan Business*

Our corporate practices and standards evolve as we strengthen our ties with Saskatchewan businesses and improve our business practices.

In 2002, for example, our Materials Management Office in Saskatoon teamed with SaskEnergy and TransGas district and area offices and other businesses in the Saskatoon area to launch the thINK FOOD Ink Cartridge Recycling Program in support of the Saskatoon Food Bank. Originally a Toronto-based program, thINK FOOD provides used printer cartridges to the recycling industry in return for proceeds for food banks. In addition to donating 400 used cartridges of our own which raised roughly $1,600 for the Food Bank, we inspired businesses to donate another 500 cartridges by the end of the year. Canada Customs and Revenue Agency (CCRA) committed to donate between 700 and 800 used cartridges for recycling annually. We hope to collect over 2,000 cartridges in 2003 to provide an ongoing source of funding for the Food Bank.

### *Realizing the Potential of Saskatchewan's Aboriginal Workforce*

We also focus on providing opportunities to the Aboriginal sector, as suppliers, employees and subcontractors. For example, in 2002 SaskEnergy continued its three-year association with Muskwa Holdings, a family-owned Aboriginal business that assembles gas service equipment. Muskwa Holdings provides economic activity to the Little Pine First Nation west of North Battleford by employing four members of the local community.

*Materials Management initiated a pilot project with White Cap Dakota/Sioux First Nation south of Saskatoon to refurbish meterstops for SaskEnergy. In 2002, this project created approximately $41,000 in savings for SaskEnergy. Says General Manager Tony Kuchapski, "The partnership between SaskEnergy and Whitecap Dakota/Sioux First Nation is working."*

More than a third of the labour content working on TransGas' Shackleton Reserve Area construction project was Aboriginal, exceeding our target of 14%. Locally hired First Nation and Métis workers lent their expertise to the Shackleton project as labourers, equipment operators, welders and foremen.

Our awarded contracts had on average an Aboriginal labour content of 18% in 2002. The contracts work to build a healthier Province with a skilled and representative workforce.

## *Increasing Our Value for the Province*

In 2002, we made some other responsible decisions about our corporate practices, including the expansion of our Salvage Operations division of Materials Management.

Salvage Operations has grown from one contract employee repairing regulators in his garage in 1998 to become a key component in our cost-effective corporate practices strategy. In five years, Salvage Operations saved the Corporation over $1.5 million by repairing equipment such as regulators, meterstops, valves and catalytic heaters.

It was fitting, then, that when SaskEnergy opened its newly acquired Salvage Operations and Construction Centre in Saskatoon in November 2002, the growing Salvage Operations division was allocated 12,600 square feet of working space. In addition to refurbishing and fabricating equipment, the six Salvage Operations team members provide product development, testing and quality control services to SaskEnergy and TransGas customers.

Another major efficiency project reached a milestone in 2002. After an extensive review, SaskEnergy and TransGas started replacing FleetNet radios in the field with cellular phones. By year's end, the majority of SaskEnergy field employees were equipped with cellular phones.

This conversion is cost-effectively changing the way SaskEnergy employees communicate in the field. Since September 2002, overall combined telecommunications costs have decreased by approximately $30,000 per month. TransGas field employees also moved to cellular service, a process that further reduced the Corporation's operating costs.

The next steps in our evolution include exploring the benefits of implementing Total Quality Management (TQM) into our Materials Management practices. By promoting a customer-driven culture of continuous improvement within an organization, TQM seeks to satisfy the needs of customers, employees and shareholders. As we follow the TQM principles of benchmarking, measuring success and seeking feedback from customers and frontline staff, we'll increase our efficiency as a Corporation and increase our value for the people of Saskatchewan in 2003.

*The newly acquired Salvage Operations and Construction Centre at 1301 Quebec Avenue in Saskatoon is now the permanent home of both Gas Construction and Salvage Operations.*

## *Preserving Our Environment*

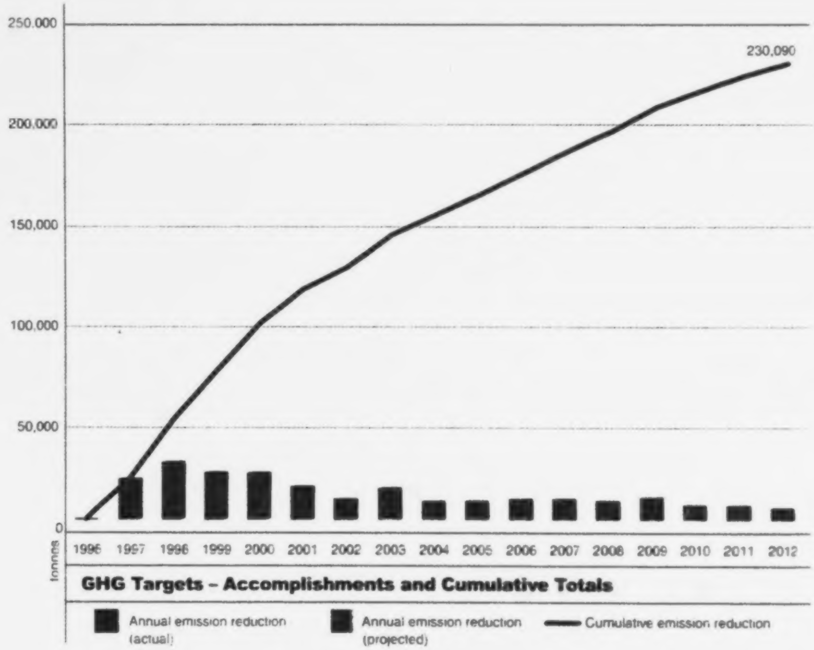
On December 10, 2002, Parliament voted to ratify the Kyoto Accord and reduce Canada's greenhouse gas emissions to 6% below 1990 levels by 2010. As homeowners, businesses and even governments ponder exactly what this will mean for them, for SaskEnergy, it will mean business as usual.

# PRESERVING OUR ENVIRONMENT

In 1994, we made a commitment to greenhouse gas reduction when we joined the Voluntary Challenge and Registry (VCR). This federal government initiative is aimed at encouraging Canadian industry to look critically at the level of its greenhouse gas emissions. Since we formed our Voluntary Climate Change Challenge Task Force in 1996, we have annually submitted a detailed climate change Action Plan & Progress Report to the VCR.

Through doing things like retrofitting buildings, planting trees and using natural gas vehicles, by the end of 2002 we had cost-effectively reduced the Corporation's annual greenhouse gas emissions by over 127,000 tonnes. Eight years before the potential deadline, we're already 55.4% of the way toward meeting our Kyoto targets.

Along the way, we're helping preserve our environment so future generations can enjoy Saskatchewan's rich natural heritage. When we organize recycling programs, or explore energy-efficient new technologies, or even voluntarily reclaim sites in the Province that have felt the effects of 50 years of natural gas development, we're helping make our footprint on the environment just a little bit lighter.



## *KERRY HANLEY*

**SUPERVISOR, ENVIRONMENTAL PROGRAMS**
**SASKENERGY/TRANSGAS - REGINA**

"TransGas is really at the forefront of restoring habitat that may have been disturbed by pipeline construction. Whether protecting burrowing owl nests, practising soil conservation or seeding native plant species, other companies are now following the TransGas standard."

Melville Pro
ns
Ducks Unlimited Canada
CANADA'S CONSERVATION COMPANY
A commitment to healthy en
TransGas

### *Doing the Little Things*

Some of our initiatives are broad in scale, and some are smaller, but all of them make a difference.

We help fund large environmental initiatives like Saskatchewan's Office of Energy Conservation (OEC), but through Energy Watch – the Corporation's energy management program for our larger facilities – we also do the little things that help us wisely use energy and materials.

Energy Watch uses employee awareness, improved technologies and the implementation of new systems to reduce the financial costs and environmental effects of our day-to-day energy use at work. In early 2002, we began identifying ways we could improve our energy efficiency, and throughout the year we implemented changes to our lighting, heating, ventilation and air conditioning systems in several facilities.

We will roll out the program to all major facilities in 2003, and as a Corporation we expect to reduce our energy costs by approximately $50,000 annually at current rates, half coming from SaskEnergy Place, our corporate head office, alone.

As an additional means of changing the way we use electricity, in July 2002 we purchased 714,300 kilowatt hours of wind-generated power from SaskPower for 13 of our facilities across the Province. This wind power amounts to 12% of the total electrical usage of our company's buildings, and will remove the same amount of greenhouse gases from the atmosphere as if we planted 142,000 trees or took almost 100 mid-sized cars off the road.

*At the wind power announcement at SaskEnergy's Yorkton office, children released butterflies to symbolize SaskEnergy's and TransGas' commitment to the environment.*

Until 2002, the Corporation had no program in place to recycle the approximately 25,000 batteries we use annually. In June, Environmental Affairs and Salvage Operations began a pilot project to collect used Alkali and Lithium batteries for recycling.

By late September, the flow of batteries to collection bins at SaskEnergy Place warranted placing additional collection containers in 10 TransGas/SaskEnergy offices. Nearly 9,000 batteries were collected by year's end. With further expansion to other offices, we're optimistic we could recycle 15,000 batteries in 2003.

## *Planning for the Future*

In 2002, our Environmental Affairs department continued planning for the Province's environmental future in two ways: by remediating previously contaminated sites, and by eliminating future contamination possibilities.

Since its inception in the early 1990s, Environmental Affairs has been actively and voluntarily cleaning up a number of historically contaminated sites across Saskatchewan. To date, 117 individual sites have been remediated, including eight mercury-contaminated sites, two underground tanks and one pit. Several larger remediation projects have been ongoing for a number of years due to the nature and location of the contaminants.

During remediation of previously contaminated sites, Environmental Affairs has been employing state-of-the-art clean-up technology that has received provincial and national attention. In addition, this work has supported graduate study research at the University of Regina by providing access to real sites where research ideas can be tested and analyzed. Since 1997, two doctoral degrees have been awarded relating to environmental work at TransGas facilities, and seven other Ph.D. candidates are currently furthering their studies with Environmental Affairs' assistance.

*Since 1993, SaskEnergy and TransGas have remediated 117 sites like this one near Estevan.*

But we're not just focusing on end-of-pipe solutions such as waste clean-up, collection and storage. We're also planning for the future by taking steps to prevent this type of pollution in the first place.

In 1993, we formally signed a Memorandum of Understanding with Nature Saskatchewan to work together to promote environmental awareness and protection. A key objective was to jointly promote environmental research and the acquisition of baseline data. In 2002, we provided $10,000 in financial support to Nature Saskatchewan to carry out environmental research at several of their nature sanctuaries. The baseline information collected on the flora and fauna will be a key indicator of the sanctuaries' environmental health.

Also in 2002, we continued our ongoing support of the Saskatchewan Burrowing Owl Interpretive Centre in Moose Jaw, providing $7,000 in funding to help the centre promote awareness of burrowing owls, one of Saskatchewan's most endangered species.

*On the United Way Day of Caring, SaskEnergy/TransGas employees demonstrated the Corporation's commitment to endangered species by volunteering their time and energy to build nesting boxes and picnic tables for the Saskatchewan Burrowing Owl Interpretive Centre in Moose Jaw.*

The success of our longstanding association with Nature Saskatchewan has encouraged us to seek other joint projects that promote environmental protection for the betterment of Saskatchewan. In October, TransGas announced an agreement with Ducks Unlimited Canada to create a new 136-acre conservation area for waterfowl and other wildlife near Melville. While TransGas will continue to operate three natural gas storage caverns 3,800 feet below ground, the majority of the surface area remains native aspen parkland. TransGas has removed surplus buildings and equipment from the property and is working with Ducks Unlimited to reseed the disturbed area with native grasses. Similar initiatives at other SaskEnergy and TransGas facilities across Saskatchewan could follow in the future.

## *Educating Our Children*

Planning for the future also means educating our children about environmental issues. In 2002, the Corporation helped fund a number of environmental educational programs geared toward Saskatchewan's youth.

For example, we sponsored the Saskatchewan Forestry Association's "Focus on Forests" student activity book, a resource that teaches elementary school children the value of Saskatchewan's forests. The "Mysteries of the Marsh" environmental monitoring program at the Saskatchewan Science Centre in Regina provides an even more comprehensive educational experience for children. The hands-on program, which in 2002 received a $125,000 commitment from SaskEnergy to be fulfilled over five years, allows schoolchildren to participate in an ongoing study of marshland wildlife habitat. As they conduct bird counts, wind speed readings, temperature readings, water quality tests and surveys of aquatic organisms, children actually contribute to a long-term database that will track and record the ongoing health of the Wascana Lake ecosystem.

Another sponsorship is a major education initiative that addresses the broader issue of climate change. We are providing $11,500 in funding to Climate Change Saskatchewan to develop new curriculum material for use in Saskatchewan schools. The resulting material will help the Province's youth better understand the causes and effects of climate change, so by supporting its development, we're taking the necessary steps in the present to educate those who will provide the environmental solutions of the future.

$125,000.00
One Hundred and Twenty Five Thousand
SaskEnergy

In 2002 we took many tangible, proactive measures to help our environment, and in 2003 we'll continue to do things like reduce our energy use, remediate historically contaminated sites and pursue agreements with other nature conservation groups.

*Our five-year, $125,000 sponsorship of the Saskatchewan Science Centre's Mysteries of the Marsh program will allow schoolchildren to contribute to a study of Wascana Lake's marsh ecosystem.*

But we won't stop there. As a new initiative to strengthen our environmental management system, we will use third-party auditors to evaluate our environmental programs and activities. In addition, we'll prepare an Environmental Report that will be made public so others can chart our progress and help us improve our performance.

Most importantly, we'll take every opportunity to develop or sponsor programs that help educate our children about the environment. It's their world tomorrow – but it's in our hands today.

**GROW**

**WITH US**

If you have any interesting ideas on how SaskEnergy can protect the environment, please contact our Environmental Affairs department at (306) 777-9368.

# CHALLENGING OURSELVES

Corporations are now more than ever being judged on their ability and willingness to do certain things: donate a recognized percentage of their profits to charitable causes; develop and employ a diverse workforce; foster the growth of local business; and practise environmental responsibility.

At SaskEnergy/TransGas, we have a history of being a socially responsible Corporation, but we know there's always more we can do. To fulfill our vision of becoming Canada's leading energy company, we have to keep challenging ourselves in all areas of our business.

That's why we've set measurable long-term targets for ourselves in 2003, and we'll do our best to exceed them. Pursuing our community involvement, finding new ways to strengthen our workforce, working closely with more Saskatchewan businesses and initiating new environmental programs – we'll do all these things to better ourselves as a company and as a Province.

People
ENERGY
VOLUNTEER

CORPORATE SOCIAL
RESPONSIBILITY REPORT
2002

SaskEnergy

*50 YEARS OF NATURAL GAS SERVICE*

1000-1777 Victoria Avenue, Regina, Saskatchewan S4P 4K5
www.saskenergy.com

ANNUAL REPORT 2002

# SaskEnergy

## 50 YEARS OF NATURAL GAS SERVICE

A PROUD HERITAGE · A VIBRANT FUTURE

103-04156/

# 50 YEARS OF NATURAL GAS DISTRIBUTION IN SASKATCHEWAN

It is a resource that sat untapped beneath the ground, likely for tens of thousands of years. Fifty years ago, a small group of Crown corporation employees brought natural gas to the surface, changing the way Saskatchewan people would heat their homes.

**One of the first gas wells in the Brock gas field blows out at over 100 feet, 1952. It could be heard eight kilometres away.**

In August 1952, construction crews laid steel transmission pipeline designed to carry natural gas from Saskatchewan fields near Brock and Kindersley, while at the outskirts of both communities, workers constructed town border stations to reduce gas pressure for town distribution.

Crews installed steel distribution pipes under streets and through back alleys, and extended service lines to homes through backyards. They then prepared individual regulators to reduce gas pressure for residential gas consumption. Finally, they bored holes through residential foundations to supply natural gas for furnaces.

The provincially operated natural gas system was officially opened on October 20, 1952 when C.F. Rutley, first overseer of the Village of Kindersley after its incorporation in 1910, ignited a natural gas flame atop an eight-foot pipe outside the Kindersley Community Hall. The original system served 290 customers in Kindersley and Brock through 26.5 kilometres of transmission pipeline and 13.7 kilometres of distribution line.

Over the next 10 years, natural gas service was steadily extended to many of the major cities and towns in Saskatchewan: Saskatoon, Prince Albert, Swift Current, Moose Jaw, North Battleford, Regina, Weyburn, Estevan, Melville, Yorkton, and points in between. By 1962, the 5,600-kilometre-long distribution infrastructure provided service to almost 89,000 customers in 140 communities across the province.

From 1962 to 1982, facilities were expanded to provide service to many other Saskatchewan communities. During that time, the first salt cavern natural gas storage facility was developed at Melville. In addition, the province's natural gas distribution system more than doubled in size to 10,000 kilometres and met the needs of 227,500 customers.

*The pipeline approaches the town of Kindersley.*

*C.F. Rutley lights the flame to officially open the natural gas system.*

*Walter and Betty Cooke were the Province's first natural gas customers.*

During the decade from 1982 to 1991, the Saskatchewan Natural Gas Distribution Program (SNGDP) supplied the most highly populated areas of rural Saskatchewan with natural gas service. Every two years, roughly 10,000 kilometres of distribution line were added to the existing system to provide access to natural gas for rural customers throughout the province.

Today, SaskEnergy/TransGas owns and operates a truly provincial pipeline system. TransGas has nearly 14,000 kilometres of gathering and transmission line, and SaskEnergy operates a 65,000 kilometre-long distribution system. Through this infrastructure, we serve the people of Saskatchewan by providing safe, reliable natural gas service to over 323,000 residential, commercial and industrial customers in nearly 600 communities.

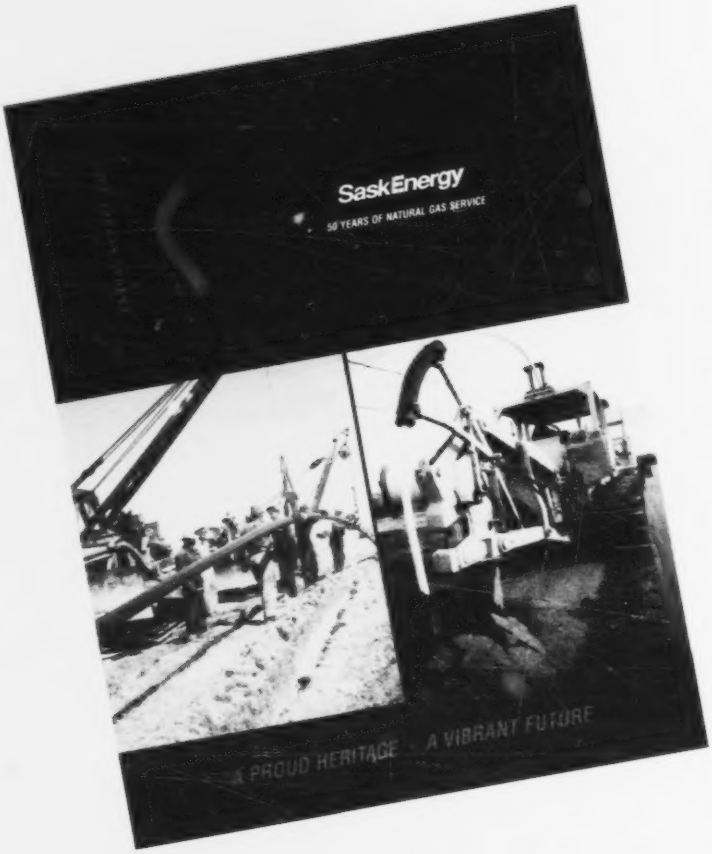
This annual report salutes the pioneering efforts of producers, employees, communities and customers who worked together to build Saskatchewan's natural gas system. Through joint effort, we've built a world-class system. But that pioneering spirit from 50 years ago is still relevant today, as SaskEnergy seeks new ways to better serve our Province, and new places in which we can use our expertise. In a world of possibility, we see opportunity . . . which we plan to pursue with the same dedication and vigour that the first employees showed so many years ago.

Walter F. Cooke, the first person in Saskatchewan to receive natural gas through the provincially run system, vividly recalls when natural gas came to Kindersley in 1952:

*"We built our house at 711 Main Street in Kindersley in about 1950. It originally had a coal furnace, but that changed when natural gas came to town. Natural gas made life a lot easier. We had used coal previously, and it was a mess, as coal can be.*

*I was the first natural gas customer in Kindersley, since my house was the first one in town to be hooked up to natural gas. About 12 or 15 people were in my basement in Kindersley the day my house got hooked up. Representatives from the gas company were there, as well as someone from the newspaper. There was hardly room for everyone there. They turned on the gas to the house, and we lit the furnace.*

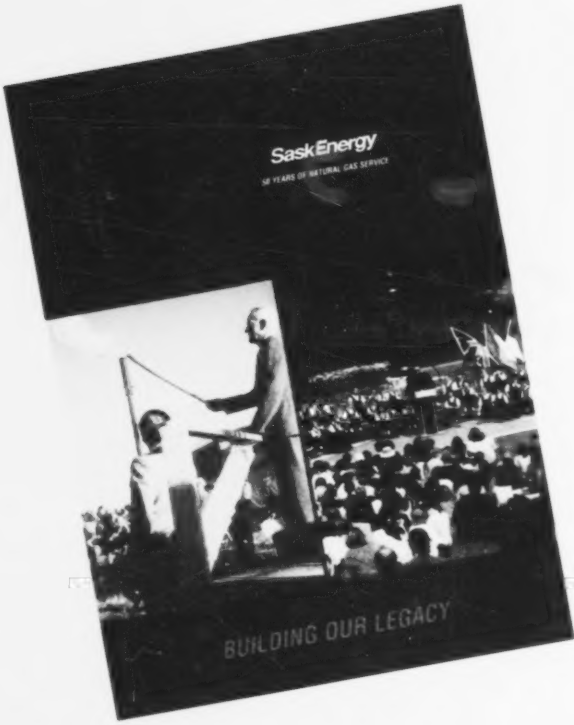
*It was a pretty exciting time."*


SaskEnergy
50 YEARS OF NATURAL GAS SERVICE
A PROUD HERITAGE . A VIBRANT FUTURE

### Our Annual Report Cover

**Then:** Saskatchewan's natural gas system had humble beginnings 50 years ago. In this photo, steel natural gas transmission pipe between Kindersley and Brock is lowered into position by a crane mounted on a Caterpillar, August 1952. Serving 290 customers, the Kindersley/Brock system consisted of 26.5 kilometres of transmission pipeline and 13.7 kilometres of distribution line.

**Now:** Although the technology we use has changed considerably since 1952, our commitment to Saskatchewan residents remains the same. As we move into our next half-century, we continue to expand what is one of the world's largest consolidated natural gas transmission and distribution systems. In this photo, polyethylene pipe is trenched into the ground to provide natural gas service to some of the Province's more than 323,000 customers.



### Our Corporate Social Responsibility Report Cover

**Then:** Fifty years ago, communities came together to celebrate the introduction of provincial natural gas service. Pictured here, C.F. Rutley, first overseer of the Village of Kindersley after its incorporation in 1910, lights a symbolic flame to inaugurate the Province's natural gas system, October 1952.

**Now:** Fifty years later, we're still bringing communities together. In this photo taken on September 17, 2002, more than 1,000 children gather in Saskatoon for Hear the Children Peace Day. Among the many peace activities was the rededication of the SaskEnergy Flame at the Rotary Park International Peace Plaza.

SASKENERGY INCORPORATED

# THE BALANCED PERSPECTIVE

To successfully grow our business for the benefit of the Province, SaskEnergy will take a balanced approach, focusing on key areas of the company. By identifying targets, we can chart our progress and build a stronger company.

## INVESTING FOR GROWTH

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Increase Net Earnings by $10 Million in a Five-Year Period | Improvement in Net Earnings | (1) | (1) | - | 2 | 3 | 7 | 10 |
| Increase Market Growth | Net Number of New Distribution Customers | 2,030 | 2,750 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Increase Throughput on TransGas | New Receipts (Terajoules/day) (TJ/day) | 95 | 50 | 40 | 35 | 30 | 25 | 20 |
| | New Deliveries (TJ/day) | 2 | 50 | 20 | 15 | 30 | 15 | 15 |

## SHAREHOLDER VALUE

| Objectives | Measures | Actual 2002 | Target 2002[5] | Target 2003[5] | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Provide Industry Comparable Returns for the Shareholder | Net Earnings ($ millions) | 7[2] | 53 | 55 | 52 | 50 | 54 | 54 |
| | Total Rate of Return on Equity | 2.3%[3] | 18.0% | 17.9% | 15.4% | 14.3% | 14.5% | 13.8% |
| | LDC[1] - Rate of Return on Equity - Core | Nil[4] | 9.0% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% |
| | TransGas[1] - Rate of Return on Equity - Core | 12.3% | 12.0% | 10.6% | 11.0% | 11.0% | 11.0% | 11.0% |
| | Debt/Equity Ratio | 73/27 | 72/28 | 70/30 | 70/30 | 69/31 | 68/32 | 67/33 |
| | Corporate Dividend % | 65% | 65% | 65% | 65% | 65% | 65% | 65% |
| | Corporate Dividend ($ millions) | 5 | 35 | 36 | 34 | 33 | 35 | 35 |
| | LDC - Rate of Return on Rate Base | Nil | 7.5% | 7.8% | 7.7% | 7.6% | 7.5% | 7.8% |
| | TransGas - Rate of Return on Rate Base | 9.5% | 9.7% | 9.0% | 9.0% | 8.9% | 8.6% | 8.4% |

[1] SaskEnergy Incorporated's two major business units are the distribution utility (the Local Distribution Company or LDC) and the transmission utility (TransGas).

[2] $48 million before the effect of the GCVA

[3] 16.4% before the effect of the GCVA

[4] 1.9% before the effect of the GCVA

[5] The forecast net earnings for 2002 and 2003 and Rate of Return on Equity for the consolidated entity and the LDC exclude the 2002 effect of the GCVA.

## CUSTOMER SERVICE EXCELLENCE

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Strong Relationships with Customers and Enhanced Customer Choice | % Satisfaction with Service/Reliability | 89% | 85% | 85% | 85% | 85% | 85% | 85% |
| | % Transmission Tie-Ins Completed within 90 Days | 58% | 95% | 95% | 95% | 95% | 95% | 95% |

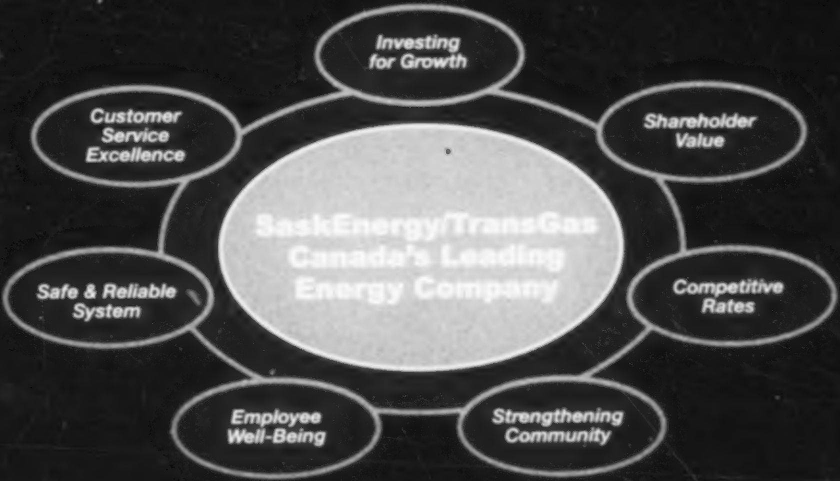
## COMPETITIVE RATES

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Provide Fair, Competitive and Stable Rates | Achieve the Lowest Weighted Average Cost of Gas among the Provincial Utilities | 2nd Lowest | Lowest | Lowest | Lowest | Lowest | Lowest | Lowest |
| | TransGas Export Rates Compared to TCPL/NGTL | < TCPL/NGTL | < TCPL/NGTL | < TCPL/NGTL | < TCPL/NGTL | < TCPL/NGTL | < TCPL/NGTL | < TCPL/NGTL |

## SAFE & RELIABLE SYSTEM

| Objectives | Measures | Actual 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|
| Exceed Industry Standard for Public Safety and Reliability | LDC - Unplanned Outages per 1000 Customers | 0.57 | 4.00 | 3.50 | 3.00 | 3.00 | 2.50 | 2.50 |
| | TransGas - Unplanned Outages per 1000 Customers | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| | LDC - Contacts with Pipeline per 1000 Kilometres of Pipe | 2.39 | 3.38 | 3.00 | 2.80 | 2.60 | 2.50 | 2.50 |
| | TransGas - Contacts with Pipeline per Year | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

# The Energy to Lead


Investing for Growth
Shareholder Value
Competitive Rates
Strengthening Community
Employee Well-Being
Safe & Reliable System
Customer Service Excellence
SaskEnergy/TransGas Canada's Leading Energy Company

# FINANCIAL AND OPERATING HIGHLIGHTS

| CONSOLIDATED FINANCIAL INFORMATION | 2002 | 2001 |
|---|---|---|
| | (millions of dollars) | |
| Delivery Revenue | 167 | 155 |
| Transportation and Storage Revenue | 69 | 70 |
| Other | 41 | 67 |
| Total Revenue | 277 | 292 |
| Operating Expenses | 245 | 246 |
| Net Earnings from Operations | 32 | 46 |
| Net Revenue (Loss) from Commodity Sales | (25) | (61) |
| Net Earnings (Loss) | 7[1] | (15) |
| Dividend | 4 | - |
| Total Assets | 1,316 | 1,361 |
| Property, Plant and Equipment – Net | 1,025 | 1,019 |
| Capital Expenditures | 57 | 58 |

| OPERATING STATISTICS | 2002 | 2001 |
|---|---|---|
| Distribution Volumes | (Petajoules) | |
| Residential | 33.7 | 29.4 |
| Commercial | 30.2 | 28.0 |
| Farm | 3.4 | 3.5 |
| Industrial | 59.5 | 55.4 |
| TOTAL | 126.8 | 116.3 |
| Transmission Volumes | (Petajoules) | |
| Domestic | 199 | 187 |
| Export | 144 | 135 |
| TOTAL | 343 | 322 |
| Number of Customers | | |
| Distribution | 323,721 | 321,612 |
| Transmission | 131 | 140 |

---

[1] Consolidated net earnings for 2002 were $48 million before taking into account the effect of the Gas Cost Variance Account (GCVA). Future commodity rate adjustments to recover the GCVA would increase consolidated net earnings accordingly.

# FINANCIAL AND OPERATING HIGHLIGHTS

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## *VISION*

SaskEnergy will be Canada's leading energy company by anticipating our customers' changing needs and providing innovative and responsive solutions.

We believe our values reflect our culture, and our commitment to our vision.

## *VALUES*

**EMPLOYEE DEVELOPMENT**
We have a commitment to continuous employee development.

**INDIVIDUAL CONTRIBUTION**
We enable individuals to be responsible and accountable for providing excellent customer service.

**TRUST AND TEAMWORK**
We have relationships that are based on trust, co-operation and teamwork.

**SAFETY, HEALTH AND ENVIRONMENT**
We provide a safe, healthy workplace and high environmental and public standards.

**UNION EQUALITY**
We recognize and respect our partnership with the union.

**PARTNERSHIPS**
We will develop partnerships that will enhance the economic well-being of Saskatchewan.

**COMMUNITY INVOLVEMENT**
We encourage corporate and individual involvement in community activities.

**RECOGNITION**
We recognize the contribution of individuals and teams.

**RESPECT**
We respect one another and the importance of family.

**CUSTOMERS**
We are committed to providing consumers and gas producers with reliable, cost-effective service.

**OPEN COMMUNICATION**
We have open communication, open dialogue and participatory management.

## LETTER OF TRANSMITTAL

March 31, 2003

The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

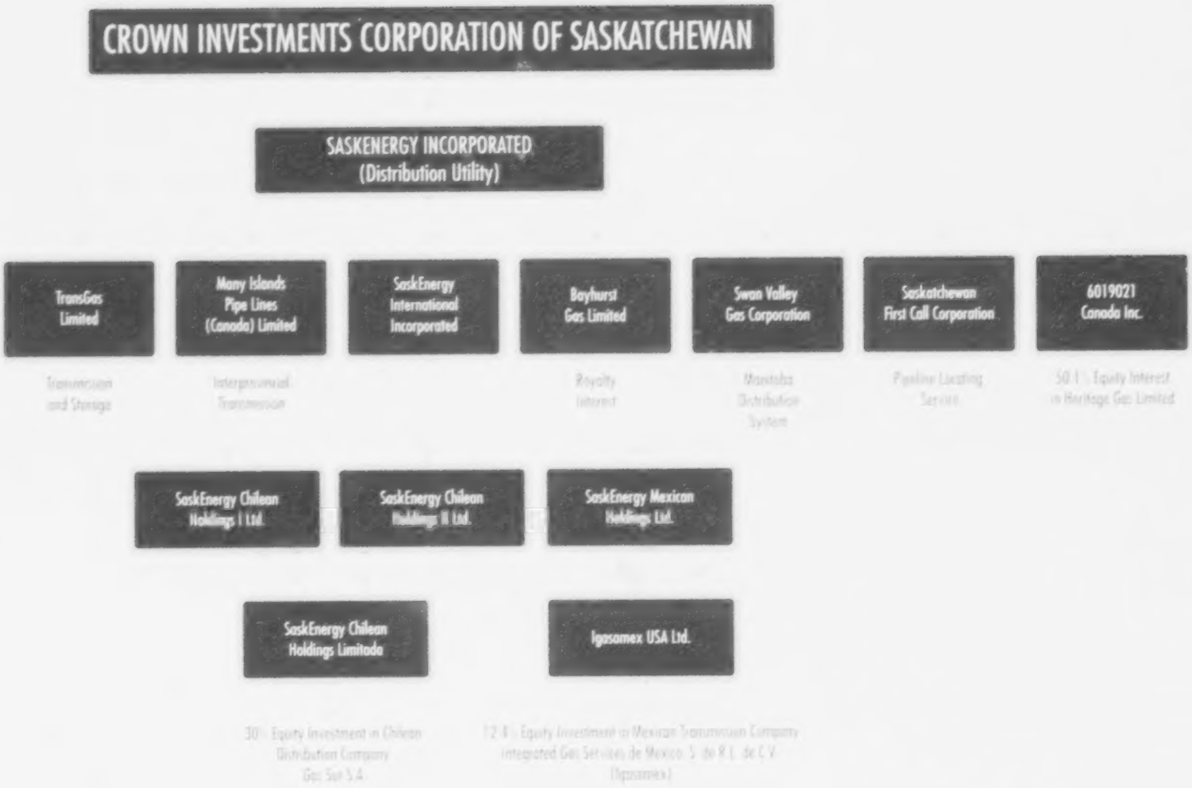
I respectfully submit the Annual Report of SaskEnergy Incorporated for the year ended December 31, 2002, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

Maynard Sonntag

Maynard Sonntag
Crown Investments Corporation of Saskatchewan

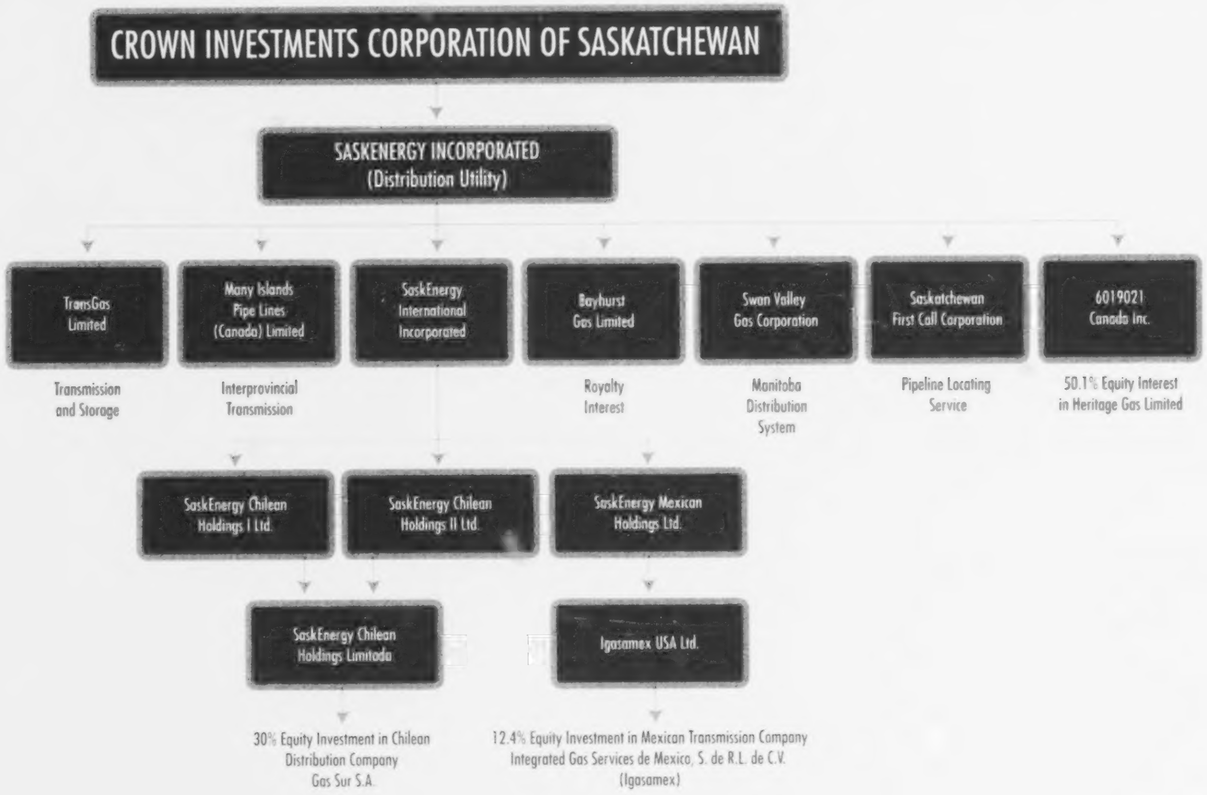
SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel, etc.) and various commercial investments.

SaskEnergy's corporate structure consists of SaskEnergy, (the Crown corporation) plus seven wholly owned subsidiaries as follows:


CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN
SASKENERGY INCORPORATED (Distribution Utility)
TransGas Limited
Transmission and Storage
Many Islands Pipe Lines (Canada) Limited
Interprovincial Transmission
SaskEnergy International Incorporated
Bayhurst Gas Limited
Royalty Interest
Swan Valley Gas Corporation
Manitoba Distribution System
Saskatchewan First Call Corporation
Pipeline Locating Service
6019021 Canada Inc.
50.1% Equity Interest in Heritage Gas Limited
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada
30% Equity Investment in Chilean Distribution Company Gas Sur S.A.
Igasamex USA Ltd.
12.4% Equity Investment in Mexican Transmission Company Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex)

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel, etc.) and various commercial investments.

SaskEnergy's corporate structure consists of SaskEnergy, (the Crown corporation) plus seven wholly owned subsidiaries as follows:


CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN
SASKENERGY INCORPORATED (Distribution Utility)
TransGas Limited
Transmission and Storage
Many Islands Pipe Lines (Canada) Limited
Interprovincial Transmission
SaskEnergy International Incorporated
Bayhurst Gas Limited
Royalty Interest
Swan Valley Gas Corporation
Manitoba Distribution System
Saskatchewan First Call Corporation
Pipeline Locating Service
6019021 Canada Inc.
50.1% Equity Interest in Heritage Gas Limited
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada
Igasamex USA Ltd.
30% Equity Investment in Chilean Distribution Company Gas Sur S.A.
12.4% Equity Investment in Mexican Transmission Company Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex)

# CORPORATE PROFILE

SaskEnergy's two major business units are the distribution utility (commonly referred to as the Local Distribution Company or LDC) and the transmission utility (TransGas Limited). The LDC has the exclusive, legislated franchise to own and operate a natural gas distribution utility within the Province of Saskatchewan. The Provincial Cabinet regulates its rates, on the advice of the Saskatchewan Rate Review Panel.

TransGas Limited (TransGas) has the exclusive, legislated franchise to own and operate the natural gas transmission system within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business that is integral to the transmission pipeline system. TransGas' transmission rates are subject to Provincial Cabinet approval.

Many Islands Pipe Lines (Canada) Limited (MIPL) owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba. The National Energy Board regulates MIPL.

SaskEnergy International Incorporated (SEII) was created in 1996 to market SaskEnergy's world-class expertise and investigate opportunities to invest in emerging natural gas distribution, transmission and storage systems. SEII's primary focus is Latin America, one of the fastest-growing natural gas markets in the world. SEII holds a 30% equity investment in Gas Sur S.A., a natural gas distribution company in Chile, as well as a 12.4% equity investment in Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex), a natural gas transmission company in Mexico.

Bayhurst Gas Limited (Bayhurst) owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

Swan Valley Gas Corporation (SVGC), formed in 2000, owns a natural gas distribution utility in the Swan Valley area of Manitoba. The Manitoba Public Utilities Board regulates SVGC.

Saskatchewan First Call Corporation (*Sask 1st Call*) was established primarily for safety reasons to maintain a database of oil, gas and other pipeline systems. *Sask 1st Call* provides a service whereby landowners and other stakeholders may contact *Sask 1st Call* to determine the location of pipeline facilities.

6019021 Canada Inc. purchased a 50.1% equity interest in Heritage Gas Limited (Heritage Gas) in 2002. During 2002, Heritage Gas filed a formal application with the Nova Scotia Utility and Review Board to obtain the natural gas distribution franchise for a certain area of the Province of Nova Scotia.

**SUSAN MILBURN**

CHAIR OF THE BOARD
OF DIRECTORS

> “The persistence to be successful, in good and in tough economic times, is the hallmark of this company’s 50 years of operation.”

# CHAIR'S MESSAGE

In serving the people of Saskatchewan for 50 years, this company has many proud achievements to reflect on and celebrate, and many significant future challenges.

It's worth remembering on this 50th anniversary that SaskEnergy and TransGas employees built and continue to operate one of the longest consolidated natural gas transmission and distribution networks in the world, connecting more than 90% of Saskatchewan communities. Not only has the system operated safely and reliably, but at the same time, the company has also consistently delivered some of the lowest natural gas rates on the continent.

It is from those strengths that we face several continued challenges for the future, including:

- Pursuing new growth opportunities in our mature market, while addressing the cost and resourcing issues caused by our aging infrastructure;
- Ensuring the financial integrity of the company while operating within an ever-changing North American marketplace;
- Continuing to be a corporate leader in Saskatchewan with respect to implementing progressive human resource policies, addressing the Province's demographic challenges, practising environmental stewardship and supporting our quality of life, through community investment and social responsibility; and
- Leveraging our expertise to ensure our extra-provincial growth initiatives deliver benefits to Saskatchewan.

The continuing need for corporate focus to achieve these objectives will be both profound and essential in the coming years. But there is increasing evidence that the company's traditional measured and calculated approach toward resolving challenges is working well.

Both our natural gas distribution business in Chile and our transmission business in Mexico are expected to be profitable in 2003. In both cases, it wasn't through the unexpected addition of a large industrial consumer or a revolutionary new business practice – it was through diligence and constant attention to the Business Plan.

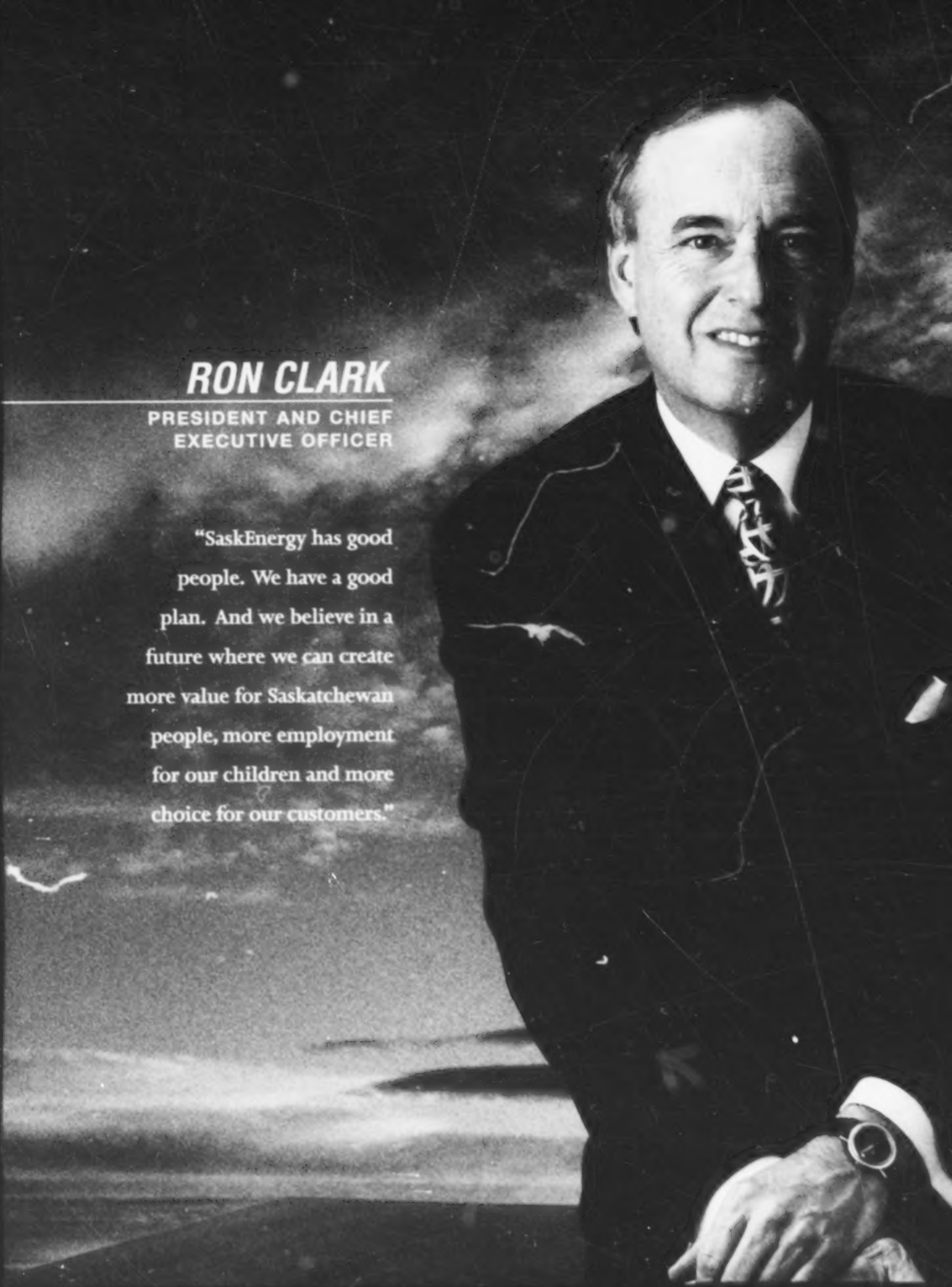
The Corporation's future is solid. Projected net earnings will grow over the five-year planning horizon to $54 million by 2007. This is a reflection of the fundamental stability of the business, combined with measured, sustainable growth.

The persistence to be successful, in good and in tough economic times, is the hallmark of this company's 50 years of operation. It is instilled in the culture of the company, top to bottom, that hard work backed by good planning will ultimately deliver success. Many of the company's ongoing successful initiatives are detailed in this annual report.

Due to other professional commitments, I resigned from the Board of Directors in late 2002. I want to thank my colleagues for their integrity, dedication and hard work in their leadership roles with the Board. Our Province is very privileged to have successful individuals at every level in the company, from the Board to the front-line staff, who bring a sense of passion and commitment to ensuring SaskEnergy's success. Frank Proto, who is succeeding me in the Chair role, has a long and distinguished record of past service within our industry and with this company. He is a highly capable individual who will use his skills to make sure the company achieves success in all its strategic directives.

I also want to thank all of our customers for their longtime support. The Corporation looks forward to providing you with another 50 years of customer service excellence.

Susan Milburn
Chair of the Board of Directors



## RON CLARK

**PRESIDENT AND CHIEF EXECUTIVE OFFICER**

"SaskEnergy has good people. We have a good plan. And we believe in a future where we can create more value for Saskatchewan people, more employment for our children and more choice for our customers."

## PRESIDENT'S MESSAGE

Valuable lessons about vision and leadership for our future can be learned from the Saskatchewan people who started building our natural gas network 50 years ago.

Launched on October 20, 1952, the Province's original gas network encompassed just 26.5 kilometres of transmission pipeline and 13.7 kilometres of distribution pipe in the towns of Brock and Kindersley. There was a grand total of 290 customers – from which eventually grew a system of more than 323,000 customers.

Some people might insist that times were simpler and business was easier in 1952, but an honest look back tells us that was hardly the case.

Natural gas was still largely regarded by producers as a curious by-product of oil drilling – and often a nuisance. Many potential customers were fearful of natural gas. Still others criticized the Government of the day for its involvement in the distribution business, as witnessed by the news stories and editorial cartoons of that time. To top it all off, there wasn't a trained workforce to lay pipe, operate a system or even market the merits of this new energy source.

With all these factors working against the employees of the day, a Crown corporation was probably the only vehicle by which a Province-wide natural gas system could be developed. However, one factor undeniably worked in the company's favor in 1952 – the presence of a large untapped market which could be addressed a bit at a time, as the network was extended community by community, safely and reliably, until the system expanded Province-wide.

Fast forward to 2002, and in many ways, the business dynamics have completely changed. Today, natural gas is extraordinarily valued as a commodity in Western Canada, with record drilling of almost 1,900 wells in Saskatchewan alone last year. Natural gas is also no longer viewed with suspicion, but instead is today the heating and lifestyle fuel of choice for 15 million Canadians and part of the solution for the environmental issues Canada faces in light of the Kyoto Accord. On top of that, the men and women of SaskEnergy and TransGas have been recognized as among the most skilled and experienced natural gas employees in the world, with their expertise in demand far beyond our borders.

Unfortunately, there are no longer thousands of easily accessible, unserved customers and communities in our home province. In fact, net new customer connections are down to about 2,000 annually, in a market that is already more than 90% saturated. Conservation and new natural gas equipment have also reduced consumption and revenue per customer. Portions of our distribution and transmission infrastructure are now as much as five decades old, and will require the increasing attention and resources that age and safety demand.

Without new revenue sources to help us meet these challenges, we face the long-term likelihood of higher rates, lower employment levels and a reduced role in helping shape the future of the Province, whether that be through local purchasing or community support.

Growth allowed our predecessors to build and sustain a low-cost natural gas system for the first 50 years of our history. Growth can protect that legacy and make us stronger for the future.

For several years, we have been pursuing a fundamental growth strategy that is easily understood – measured, sustainable development, capitalizing on the unique expertise we have developed in Saskatchewan. With the expertise of strategic partners, we are using our Saskatchewan experience to create new investment opportunities such as our transmission business in Mexico and our distribution business in Chile. These two projects are on track to be profitable in 2003 and hold the potential to deliver $200 million in dividends and terminal value back to the people of Saskatchewan by 2020.

But at the same time, we are investing in Saskatchewan, capitalizing on exciting new opportunities. Proposed new gas storage projects will deliver additional revenue. In distribution, we continue to aggressively pursue nontraditional applications like supplying natural gas to oilfield batteries, which can each add an annual load to our system that is the equivalent of up to 1,000 homes. More than 70 grain terminals are connected to our natural gas network and some 130 private-sector plumbing and heating contractors are providing our customers with a Province-wide retail and service presence as part of the SaskEnergy Dealer Network.

We project that by 2007, our company will realize about $10 million in additional annual profits from our diversification initiatives. These initiatives are essential to the financial health of the Corporation – particularly when our traditional business, the transmission and distribution of natural gas, is becoming more mature.

Our future is bright, but is by no means assured. Natural gas prices to consumers remain high, developed North American gas reserves appear to be declining, and economic conditions continue to be uncertain. It will take all of our creativity and collective expertise to keep addressing these challenges.

In times like these, we can look for inspiration to the residents of Kindersley and Brock, who, in 1952, discarded their wood stoves and coal burners in favour of natural gas. They were the first of the thousands upon thousands of customers who would eventually put their confidence in good people who had a good plan and the courage to keep moving forward on the right path.

SaskEnergy has good people. We have a good plan. And we believe in a future where we can create more value for Saskatchewan people, more employment for our children and more choice for our customers. To do these things will mean embracing all the possibilities that prudent growth offers both inside and outside our borders. It is a legacy that we have a responsibility to leave to our children . . . but most importantly, that we have the means and the expertise to deliver.

On a final note, I would like to send a heartfelt thank-you to our employees. In the busy world we live in, it can be easy to forget that our company is judged not only by the service we deliver every day, but also by how we contribute to making our communities better places in which to live. Our employees never forget this – and in fact, each year, they strive to make our Province stronger.

In 2002, more than 200 Saskatchewan communities were touched by over 950 community relations sponsorships and charitable initiatives undertaken by SaskEnergy and TransGas employees. Close to 125 community barbecues were hosted throughout the Province to recognize volunteers and raise money for local charities. And in its ninth year, our Share the Warmth recycling program surpassed a total of more than 500,000 pieces of warm clothing and children's books collected for redistribution to less fortunate families.

Without the helping hands and caring hearts of our close to 1,000 employees who volunteer every year, such a community partnership would be impossible. Thanks to all of these dedicated employees for the reminder that we are fortunate to live and work in a Province where the ties that bind us together are real and heartfelt, every day and in every way. We have a wonderful 50-year history to prove it!

R.S. Clark

Ronald S. Clark
President and Chief Executive Officer

# BUILDING ON OUR HERITAGE

When Saskatchewan's natural gas system began operation in 1952, it had one simple goal: to provide safe, reliable and cost-effective service to as many people in the Province as possible. Over the course of five decades, we've broadened into a Corporation with several core competencies: natural gas distribution, transmission and storage. In 2002, we continued using our expertise to build our core business while delivering competitive rates and outstanding service to our customers.

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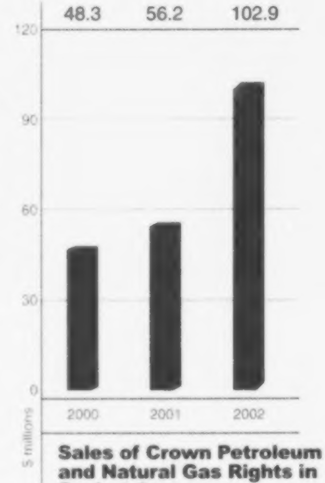
### *Developing Saskatchewan's Natural Gas Industry*

In the 1960s, producers drilling for deeper oil plays north of Swift Current missed a relatively shallow natural gas reserve area. New drilling techniques and better geological information led to the exploration and development in 1999 of the Shackleton Reserve Area, which contains an estimated 0.5 trillion cubic feet (TCF) of natural gas, an amount equivalent to about 20% of Saskatchewan's proven existing reserves.

In June 2002, TransGas announced a $9 million investment to extend its pipeline network into this major new natural gas reserve area. Over the summer, Carson Welding and Maintenance Ltd. installed over 90 kilometres of transmission pipeline, and SaskEnergy crews constructed meter stations and the necessary facilities to provide access to eight new gas receipt points in this area.

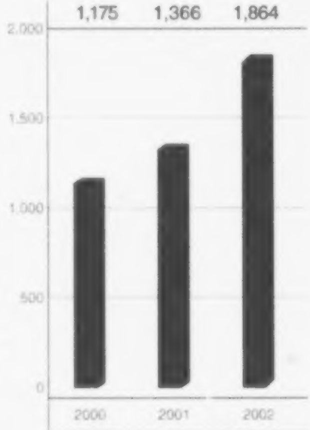


**Sales of Crown Petroleum and Natural Gas Rights in Saskatchewan**

*Randy Greggains, Manager, Customer Facility Requests, and John Adams, Manager, Pipeline and Storage Engineering, were instrumental in TransGas' development of the Shackleton project.*

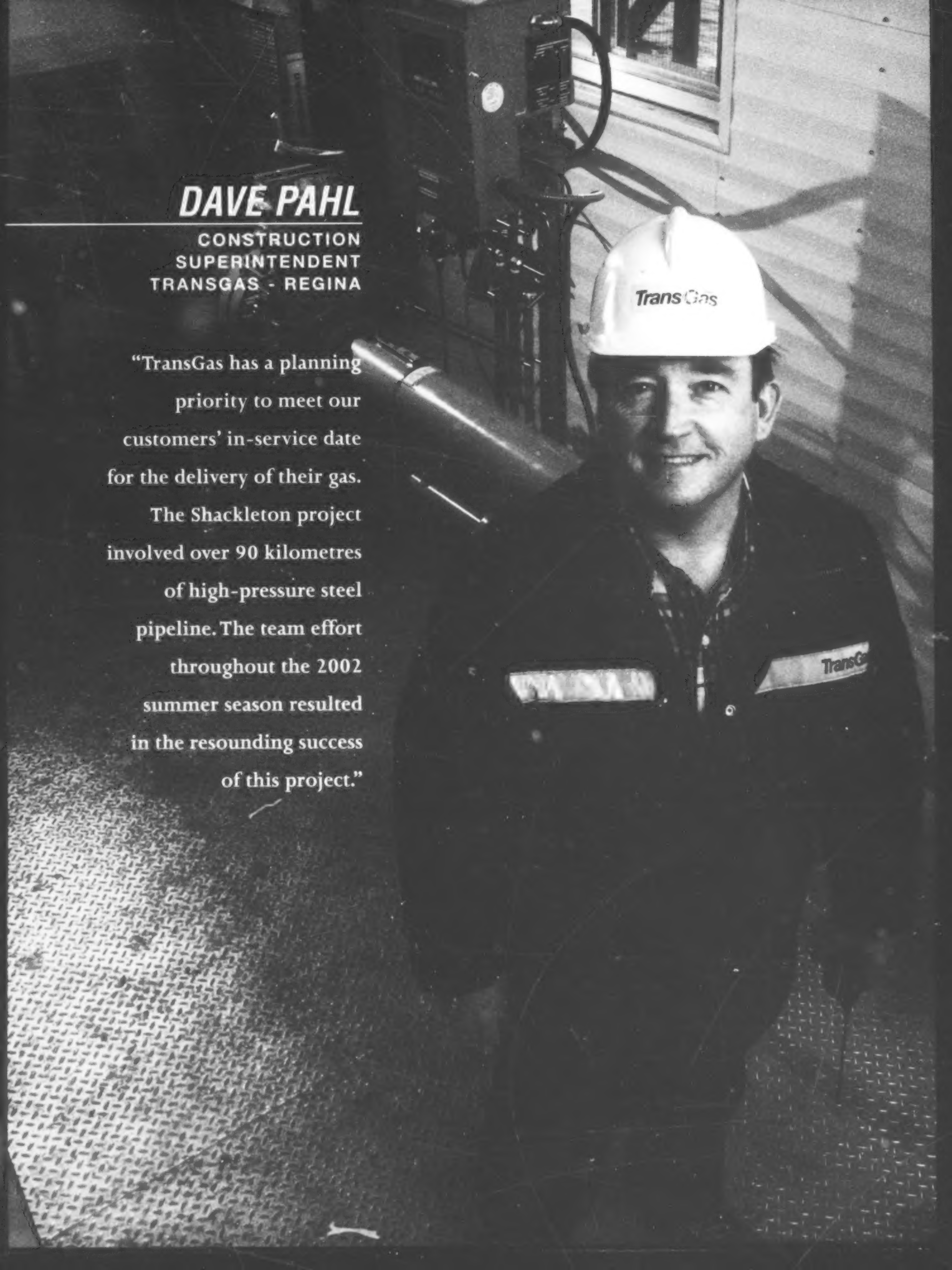
Gas flow from Shackleton began in late September. By year's end, three area producers were transporting a total of 60 Terajoules per day (TJ/day) to market. When other potential projects come on-stream and the Shackleton system begins operating at full capacity, transmission tolls are estimated to deliver annual revenues of up to $4 million to TransGas.

Spurred in part by the successful development of the Shackleton area, sales of Crown petroleum and natural gas rights in Saskatchewan hit a five-year high of $102.9 million in 2002. Producers drilled a record 1,864 gas wells – an increase of 36% over 2001 – and for the first time in the Province's history, annual natural gas drilling exceeded oil drilling.



**Natural Gas Well Drilling (cased gas wells)**

*Construction in the Shackleton area took place over the summer, and three producers came on-stream by late September.*



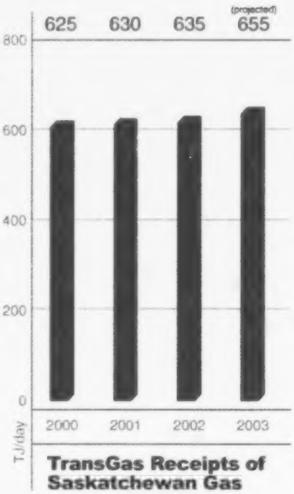
## DAVE PAHL

CONSTRUCTION
SUPERINTENDENT
TRANSGAS - REGINA

"TransGas has a planning priority to meet our customers' in-service date for the delivery of their gas. The Shackleton project involved over 90 kilometres of high-pressure steel pipeline. The team effort throughout the 2002 summer season resulted in the resounding success of this project."

## BUILDING ON OUR HERITAGE

### *Improving Market Access*

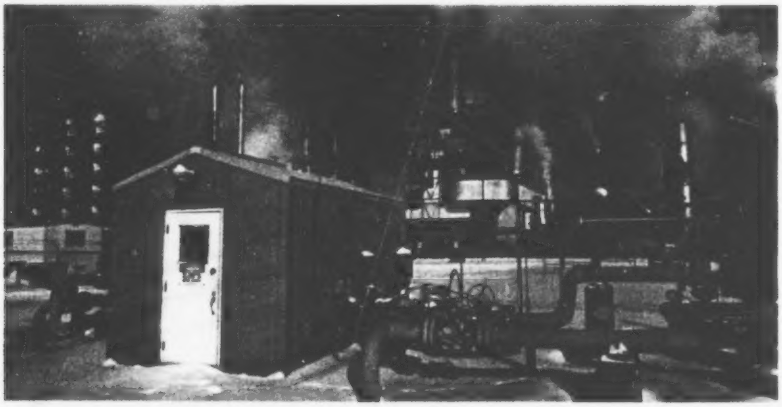


**TransGas Receipts of Saskatchewan Gas**

The robust producer interest in Saskatchewan is based on several factors: relatively strong natural gas prices, good availability of mineral rights, an industry focus on shallow gas development, the success of the Shackleton play area, and recently announced provincial royalty/tax changes.

As a direct result, TransGas had another very busy year during 2002. Thirteen new receipt connections added 110 TJ/day of receipt capacity onto the TransGas system. Shackleton's new pipeline infrastructure accounted for eight of these new receipt points. TransGas receipts from Saskatchewan rose for the fourth year in a row, averaging 635 TJ/day in 2002, up from 630 TJ/day in 2001. The focus on moving additional gas from Alberta continues to be an important directive, as surplus capacity exists within the system.

TransGas is continuing to work with customers on several other projects requiring natural gas delivery service in Saskatchewan. Gas was delivered to the new SaskPower International and ATCO cogeneration facility located at the Potash Corporation of Saskatchewan's Cory mine near Saskatoon. As well, TransGas, together with SaskEnergy, participated in discussions with several potential ethanol producers regarding their natural gas delivery facilities requirements.



***In 2002, TransGas installed a new delivery meter for the Consumers Cooperative Refineries Ltd. expansion in Regina.***

### *Meeting the Challenge*

The growth of intra-Saskatchewan load from ethanol plants and other potential future industrial developments is a critical component of the TransGas business plan. While an additional 57 Petajoules (PJ) are expected to be delivered to new Saskatchewan customers by 2007, the export market is expected to erode as the total supply of natural gas in the Province declines. Saskatchewan is eventually projected to be a net importer of natural gas, providing additional motivation for TransGas to "fill the pipes" in the intervening years. TransGas is also responding to the challenge by intensifying its customer service efforts, ensuring it is well-positioned to meet the need of customers to access critical business data electronically, improving their ability to manage their natural gas business.

### *Serving Our Customers*

The technological evolution of TransGas' customer service business is evident in the move of customers toward web-based nominations for gas shipping. More than two-thirds of these transactions were occurring via the web by the last quarter of 2002. The same timeframe also saw the second phase of service enhancements to TransGas customers through the Connection to Value initiative. Key among these changes was the decision to move storage service to the trading hub known as the TransGas Energy Pool (TEP) in 2003.

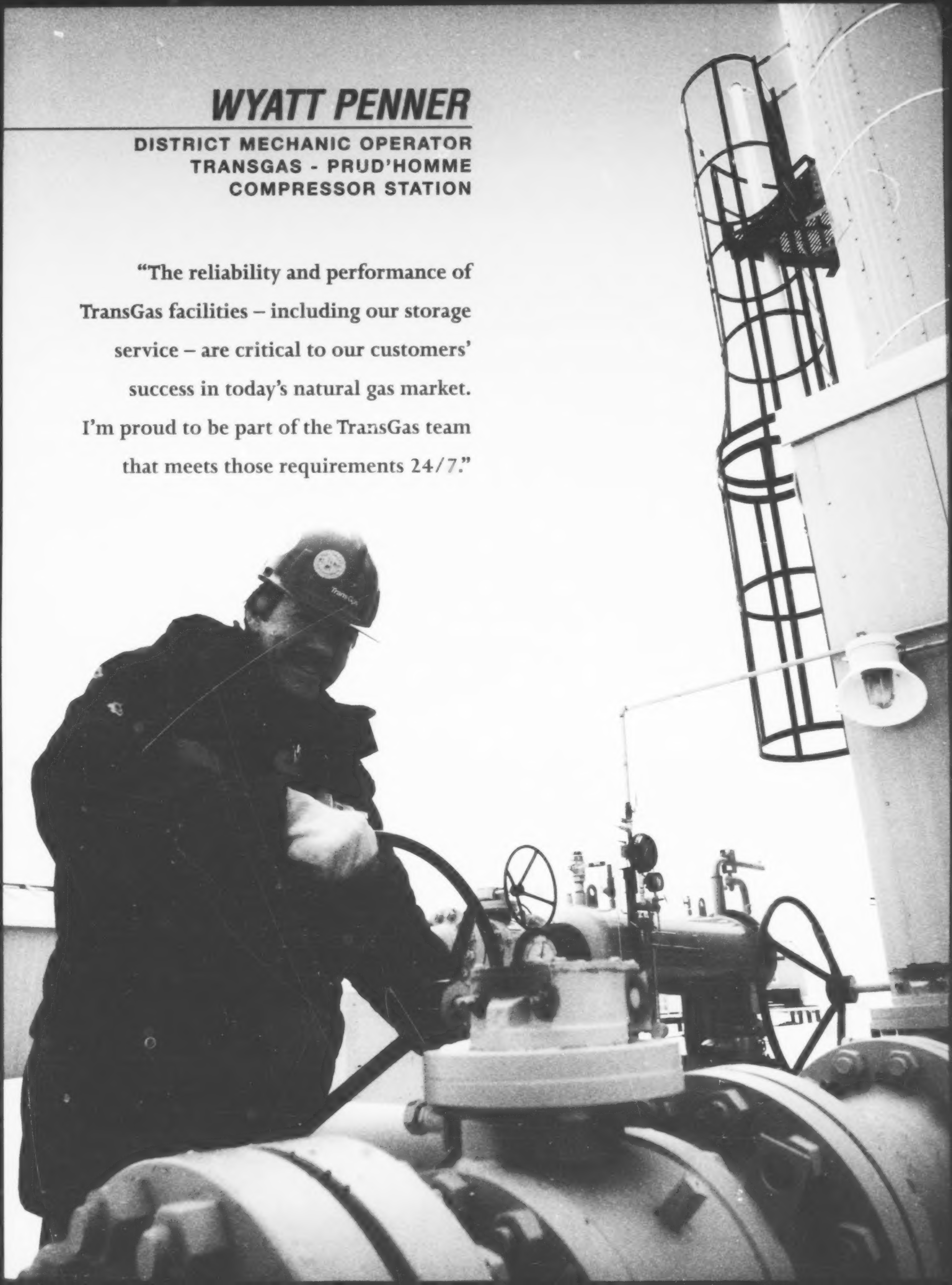
The new arrangement, revenue-neutral to the company, will allow shippers greater flexibility and liquidity in structuring their gas transactions, while introducing greater fairness and reducing pricing uncertainties. Negotiated through TransGas' co-operative Customer Dialogue Process, the decision is reflective of the Corporation's ongoing commitment to jointly address business issues with its customer base. In a survey sent to 312 TransGas customer contacts in November/December 2002, an over 85% satisfaction rate with the company's rates and policies was recorded.

Cost pressures caused TransGas to implement a general 2% rate increase on January 1, 2003, following a three-year general rate freeze. The company continues to offer customers a very competitive transportation rate structure.

## *WYATT PENNER*

**DISTRICT MECHANIC OPERATOR**
**TRANSGAS - PRUD'HOMME**
**COMPRESSOR STATION**

"The reliability and performance of TransGas facilities – including our storage service – are critical to our customers' success in today's natural gas market. I'm proud to be part of the TransGas team that meets those requirements 24/7."



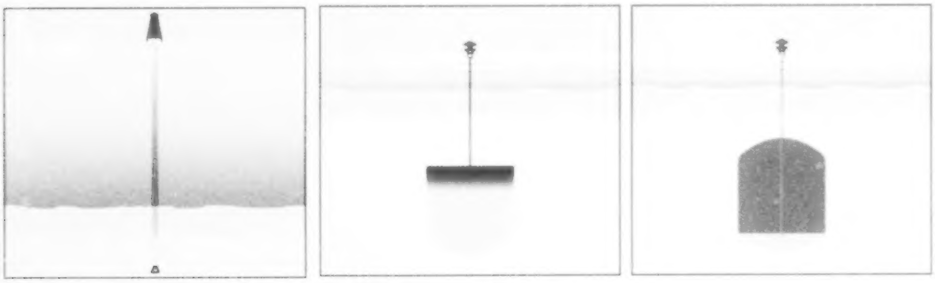
### *Maximizing Facility Use*

Ever since Saskatchewan pioneered one of North America's first underground salt cavern natural gas storage facilities in Melville in 1964, gas storage has developed into one of the Corporation's core competencies. Storage was originally designed to meet increased customer demand on cold winter days. While still playing a prominent role in fulfilling this need, storage service has subsequently evolved to become a valuable customer service offering to gas producers, marketers and end-users.

Industry growth is driving the demand for more storage. TransGas' firm storage capacity of close to 31 Petajoules (PJ) and firm deliverability of 512 Terajoules per day (TJ/day) is currently completely subscribed, with demand surpassing available space in TransGas' 10 storage cavern and field locations.

The Corporation is proposing to construct a new $35 million four-cavern storage facility just west of Saskatoon to satisfy customer commitments for additional storage service of 2.0 PJ of volume and 74 TJ of daily deliverability. Initially, the project, starting in 2003 with first-stage commissioning by 2005, will help serve the general market growth in the Saskatoon area including SaskPower's expansion of the Queen Elizabeth Power Station and the cogeneration facility at the Potash Corporation of Saskatchewan's mine near Cory. By moving gas in and out of caverns quickly and seamlessly, these new storage facilities will meet customers' needs for reliable and responsive service.

The construction of a second market-based storage development in southern Saskatchewan remains likely. An "open season" call produced a sufficient response to examine the construction of salt cavern facilities with connections to major pipeline systems. TransGas regards this development as a top priority project for 2003.



***Natural gas storage caverns are constructed by drilling down to salt deposits approximately a mile beneath the earth's surface. Water is pumped down the shaft to dissolve salt and create a cavern into which natural gas is injected for storage and eventual use by customers.***

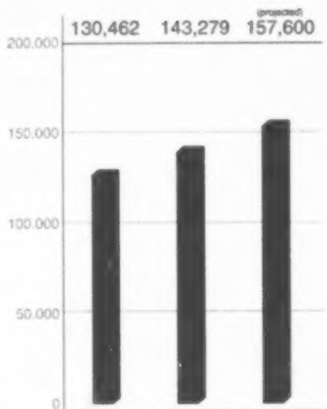
### *Forming New Business Relationships*

Through owning and operating the largest underground pipeline system in Saskatchewan, SaskEnergy and TransGas employees handle over 100,000 pipeline location inquiries each year. In 2002, the Corporation worked with 14 members of Saskatchewan's pipeline community to capitalize on the efficiency of its well-established line location process and streamline the marking of underground oil and gas facilities for Saskatchewan residents, businesses and contractors.

Saskatchewan First Call Corporation (*Sask 1st Call*) is a pipeline location screening and notification service created by SaskEnergy and TransGas using models currently in operation in Alberta and British Columbia.

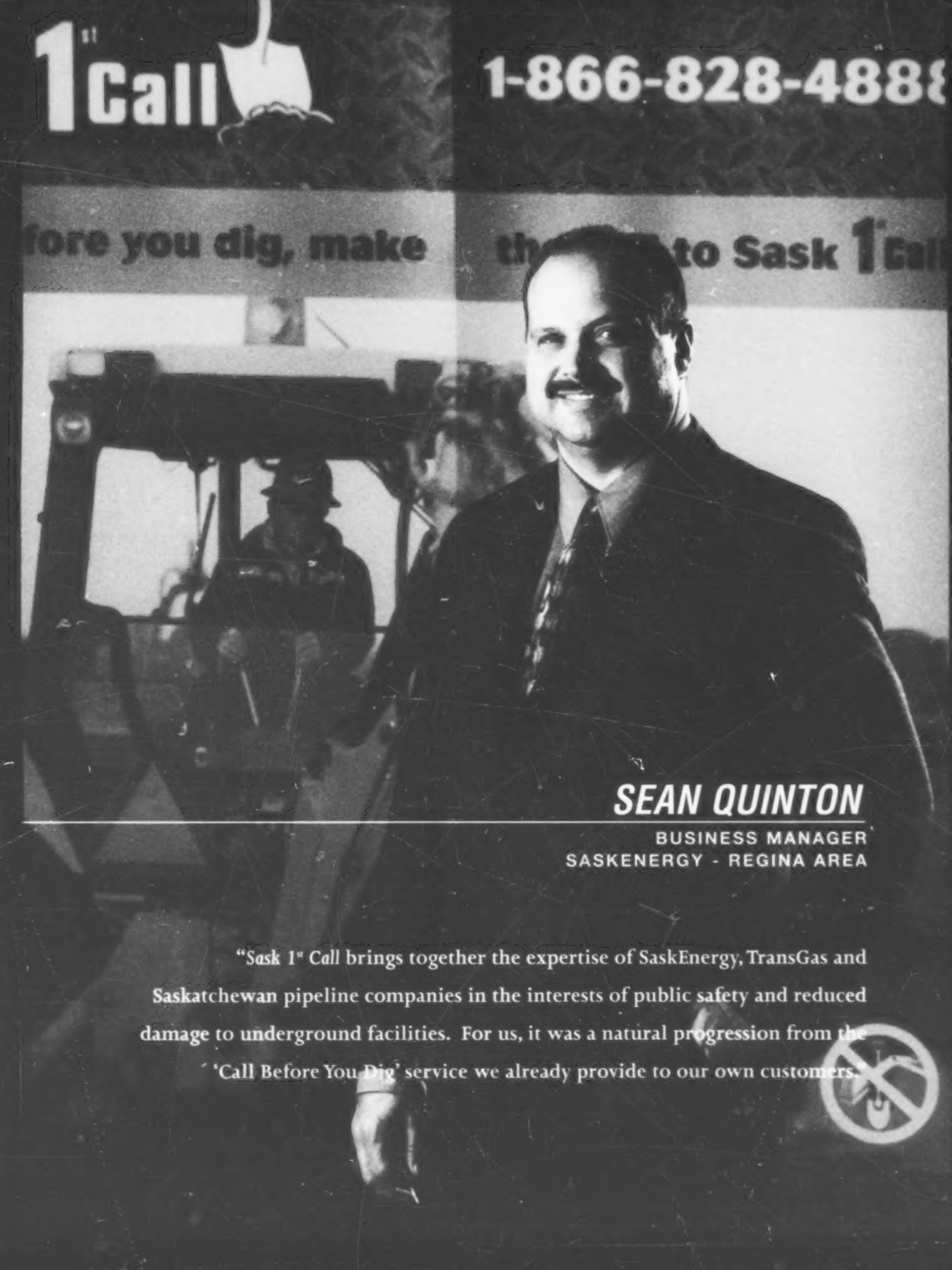
Starting in early 2003, customers digging or excavating anywhere in the Province will call the *Sask 1st Call* toll-free number. A trained and experienced SaskEnergy Customer Service Representative (CSR) will then enter all the pertinent information concerning the proposed excavation into a screening database. The software will determine which subscriber companies have underground facilities at that location. These companies will automatically be notified that they are responsible for a line locate.

*Sask 1st Call* provides a valuable service for SaskEnergy and important synergies with the rest of the industry in the Province. It has the potential to enhance safety while making it more convenient for customers to request locates, and contractors to do business cost-effectively. The $150,000 of start-up costs as well as ongoing operating expenses will be recovered by the subscriber fees paid by participating companies. As the Corporation continues to work with other Saskatchewan organizations, *Sask 1st Call* will become more comprehensive and will further improve public safety and the integrity of pipeline facilities across the Province.



**Number of Line Locates Processed Yearly by SaskEnergy CSRs**

***Sask 1st Call will make it easier for customers to request underground line locates. This will help protect Saskatchewan's oil and gas infrastructure and at the same time improve safety for customers and contractors working throughout the Province.***


1st Call
1-866-828-488
fore you dig, make
th
to Sask 1st Call

**SEAN QUINTON**

BUSINESS MANAGER
SASKENERGY - REGINA AREA

"*Sask 1st Call* brings together the expertise of SaskEnergy, TransGas and Saskatchewan pipeline companies in the interests of public safety and reduced damage to underground facilities. For us, it was a natural progression from the 'Call Before You Dig' service we already provide to our own customers."

### *Seeking New Growth in a Mature Market*

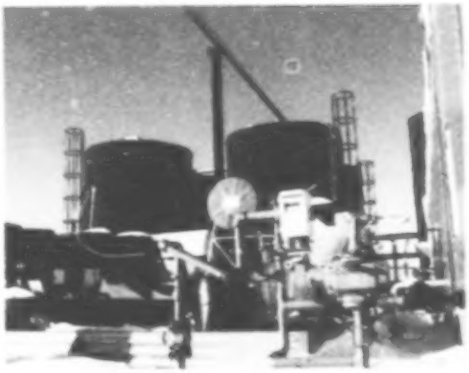
Saskatchewan's mature gas distribution market produced approximately 2,030 new customer connections in 2002, a 74% increase in net connections over 2001. Led by strong retail growth, commercial connections increased by 194, and service was extended to Greenwater Provincial Park. While encouraging, overall system connection growth remains under 1%, a figure complicated by the continuing trend of reduced natural gas usage per customer.

Accordingly, the Corporation actively continues seeking less traditional but attractive loads within the Province. Delivering natural gas to oilfield batteries for power generation is one promising alternative, with each project capable of adding the equivalent annual consumption of up to 1,000 homes. Currently, only about 150 of Saskatchewan's approximately 2,000 oilfield batteries use natural gas.

In 2002, five new oilfield and 17 new industrial agricultural customers, including grain dryers and hog barns, were added to the network, providing the equivalent load of over 2,000 homes. In addition, these customers realized almost $440,000 in annual energy savings compared to other fuel sources.

The Corporation is also continuing to work on a co-operative basis with an enthusiastic local committee to extend natural gas service further up Highway 2 from Montreal Lake to La Ronge. Though the project poses economic challenges, SaskEnergy and the local gas committee continue to seek additional external funding to make it viable.

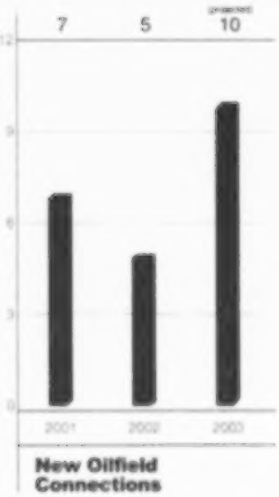
The image of natural gas among consumers has suffered due to volatile pricing, despite its competitiveness compared to other energy sources. SaskEnergy did not change its rates in 2002, but on the open market where SaskEnergy buys gas and sells it to consumers at cost, prices fluctuated significantly. Early 2003 saw a dramatic run-up of prices, increasing the deficit in the SaskEnergy Gas Cost Variance Account, which had a balance of about $32 million at December 31, 2002. While education about the true value of the commodity is important, long-term price moderation would again help stimulate additional activity in all customer groups.



*SaskEnergy provides natural gas for power generation to about 150 Saskatchewan oilfield batteries like this one in the Plover Lake area south of Denzil.*

## BUILDING ON OUR HERITAGE

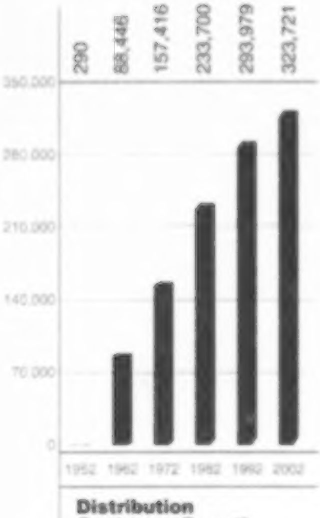
### *Following a Vision*



**New Oilfield Connections**

In 1952, the foundations of our provincial natural gas infrastructure were laid with the construction of a small transmission and distribution system serving homes and businesses in two Saskatchewan communities. Over the next 50 years, this infrastructure grew immensely, but the Corporation never lost sight of its original vision: safe, reliable natural gas service for the people of our Province.

Today, we continue to take every opportunity to fulfill that vision. In a mature market, every year SaskEnergy connects more homes and small businesses to its distribution system and at the same time actively pursues promising new prospects such as oilfield batteries. In 2002, TransGas continued its tradition of constructing the infrastructure necessary to develop the Province's natural gas reserves. The company also made plans to expand its existing natural gas storage facilities both to guarantee reliable service for Saskatchewan residents and to link the Province more beneficially to North American markets.



**Distribution Customer Growth**

Just as they have been over the last half century, customer service, system integrity and public safety are still major priorities for the Corporation. Sask 1st Call gave us an opportunity to combine all three of them in one initiative. By streamlining the processes by which line locates are handled in the province, SaskEnergy and TransGas renewed their commitment to protect the Province's natural gas infrastructure and at the same time preserve customer and contractor safety.

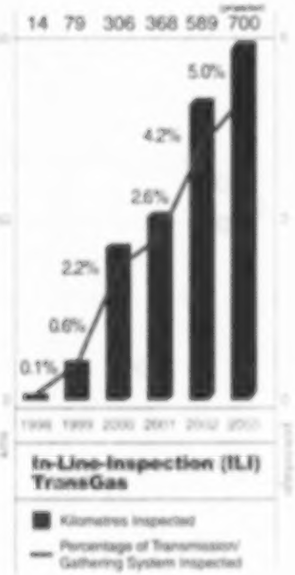
Fifty years ago our predecessors envisioned natural gas as a safe, reliable way of fulfilling Saskatchewan's growing energy needs. That vision is our heritage, and something we'll continue to build on as we work to secure our Province's energy future.

# SPECIAL SECTION - PROTECTING OUR INFRASTRUCTURE

With almost 14,000 km of transmission pipeline, over 65,000 km of distribution pipeline and over 30 PJ of storage capacity, the SaskEnergy/TransGas network is the largest buried system in the Province, and is in fact one of the largest consolidated natural gas pipeline and storage systems in the world. Historically, this system has an excellent safety record, but the Corporation constantly performs pipeline inspection and maintenance in order to keep the network as safe and reliable as possible for its customers.

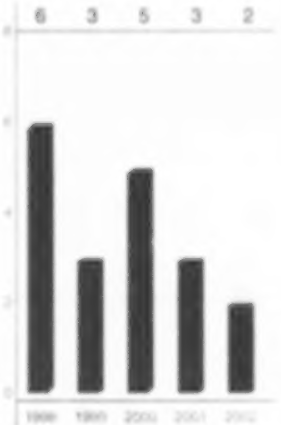
Each year, TransGas conducts aerial views of major lines to check for encroachments on its facilities. In addition, in 2002 all pipelines in rural Saskatchewan were leak surveyed by helicopter and ground-based leak detection was completed within all urban centres.

TransGas regularly uses industry-proven technologies such as In-Line-Inspections (ILI) to assess the structural integrity of transmission pipelines. Following each ILI tool run, the collected computer data is analyzed and risk management practices are implemented to optimize maintenance and mitigate risk. In 2002, TransGas conducted ILI on almost 600 kilometres of pipeline and carried out 38 investigative digs on 5 major pipelines in the Province. At plant facilities, the Corporation performed direct examinations of 69 pressure vessels and station piping sections.



**In-Line-Inspection (ILI) TransGas**

TransGas significantly enhanced its pipeline integrity program in 2002 with the introduction of risk management practices that use experience and research to help ensure ongoing pipeline safety and reliability. Two pipeline incidents occurred in 2002 (one in-service rupture and one leak caused by a lightning strike), but there were no direct pipeline hits. In both cases, service was quickly restored and the incidents were fully investigated. It is our practice to investigate all incidents in detail to enhance our understanding of risk factors and then take action to minimize the potential of similar situations occurring elsewhere on the pipeline system.



**Underground Pipeline Leaks - TransGas**

(transmission/gathering system)

Efforts to protect our infrastructure and those who work around the system would not be complete without an effective public awareness program. In 2002, the Corporation continued to work with First Responders to inform them of the actions necessary in the event of a natural gas fire. We also held pipeline safety discussions with 2,045 contractors representing 724 companies throughout the Province, and we participated with 1,650 landowners, First Nations bands and individuals in open houses that emphasized the importance of conducting a line locate before digging. Pipeline safety will be further enhanced in 2003 with SaskEnergy/TransGas' participation in *Sask 1st Call*.

# FOCUSING ON THE FUTURE

On any given January day, it can be 27 degrees Celsius in both North Portal, Saskatchewan and Mexico City – give or take a plus or minus. Although the climate might differ substantially between these two places, the common need is natural gas – for heating homes in North Portal, and for producing products like toothpaste and soap in the industrial parks of Mexico City.

Building on our 50 years of experience providing natural gas service to communities across the Province, SaskEnergy is actively pursuing new business opportunities internationally in places like Mexico and Chile as well as domestically in Nova Scotia. As new provinces and countries discover the advantages of natural gas, as we did 50 years ago, SaskEnergy will use its expertise to bring that business and the profits back to Saskatchewan.

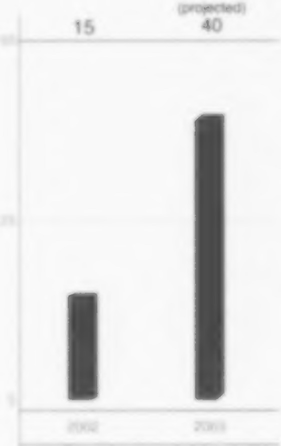
Staying on top of all our opportunities also means staying close to the new technological developments that are changing the natural gas business, so that we can compete as a Corporation – and as a Province – in the energy world of tomorrow.

### *Looking Beyond Our Borders*

***In 1998, the Colgate/Palmolive industrial facility located near Mexico City became Igasamex's first customer. Igasamex now serves 56 members of Mexico's industrial sector.***

Three separate extra-provincial business ventures are central to the Corporation's plan to increase its annual income from new diversified investments by $10 million by 2007.

In March 2002, SaskEnergy International Incorporated (SEII) indirectly acquired a minority position (12.4%) in Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex), a Mexico City-based company that provides natural gas transmission services to Mexico's industrial sector,[2] including some Fortune 500 companies.

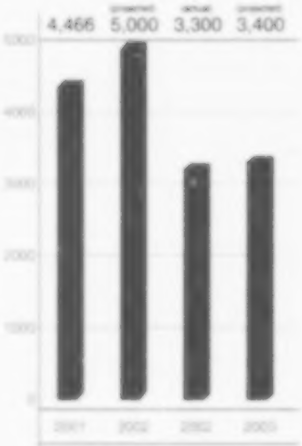


**Igasamex Industrial Customer Additions**

Established in 1996, Igasamex began flowing natural gas to its first customer, Colgate/Palmolive, in 1998. Since then, Igasamex has grown rapidly, today serving 56 industrial customers and flowing approximately 21,100 Gigajoules (GJ) of natural gas per day on 14 laterals. Igasamex expects to be delivering natural gas to approximately 96 customers by the end of 2003 and 120 customers at the end of 2005.

***In 2002, Gas Sur extended its natural gas network by hanging a pipeline on the railway bridge which connects Concepción/Talcahuano with San Pedro. To do this, crews had to work on the bed of the Bio Bio River during the winter months.***

The Igasamex investment has provided the Corporation with the opportunity to market its expertise to add value operationally to a growing company. SEII has signed a fee-for-service Technical Advisory Agreement with Igasamex to provide assistance in such areas as cathodic protection, emergency response, pipeline operator training, standard practices, gas nominations and gas supply management.



**Gas Sur S.A. Customer Additions**

Igasamex expects to be profitable in 2003. SEII has approval to invest up to $12 million USD in the company and add substantially to its initial Igasamex investment of $2.3 million USD.

## TRANSGAS CUSTOMER SERVICES

(l-r) David Wark, Vern Gorr, Debbie Brown, Cindy Walter,
Phil Sandham, Chris Uhren

"This group is part of a larger Customer Services team who assist customers in managing their transportation and storage portfolios using the new TransGas service model and e-business tools."

Phil Sandham, Executive Director

SEII's other Latin American business venture, a 30% equity investment in a Chilean natural gas distribution company, Gas Sur S.A., is poised to pay dividends to the Corporation. Serving a market area of over one million people including the cities of Concepción and Talcahuano, Gas Sur has grown substantially since SEII first invested in the company in 1999. New customer additions totalled 3,300 in 2002, and sales volumes increased 22% to 600,000 GJ. Gas Sur's growth picture is robust, and the company also expects to be profitable in 2003.

***Kathy Peter, Team Leader of Business Development, is part of the SaskEnergy team working to make natural gas service a reality in Halifax and several other municipalities in Nova Scotia.***

Heritage Gas

*Putting Our Energy Here. Naturally.*

Closer to home, the Corporation continued to pursue a new natural gas distribution opportunity in North America's largest greenfield market, Nova Scotia. This past summer, SaskEnergy announced that it was partnering with Scotia Investments Limited (Scotia Investments) and AltaGas Services Inc. (AltaGas) to form Heritage Gas Limited (Heritage Gas), the Nova Scotia-based company that would compete for the Province's natural gas distribution franchise. SaskEnergy owns a majority share (50.1%) of Heritage Gas, with AltaGas and Scotia Investments holding the remaining 49.9%.

After public hearings last fall with the Nova Scotia Utility and Review Board (NSUARB), Heritage Gas was awarded a natural gas franchise on February 7, 2003 for a reduced geographic area in Nova Scotia. The Heritage Gas shareholders are analyzing the decision of the NSUARB before making a final decision to proceed.

### *Exploring New Technologies*

Good things often come in small packages, like the natural gas-fired microturbines that SaskEnergy began testing in 2002. Although small in size, they hold the potential to be giants when it comes to our Province's energy future.

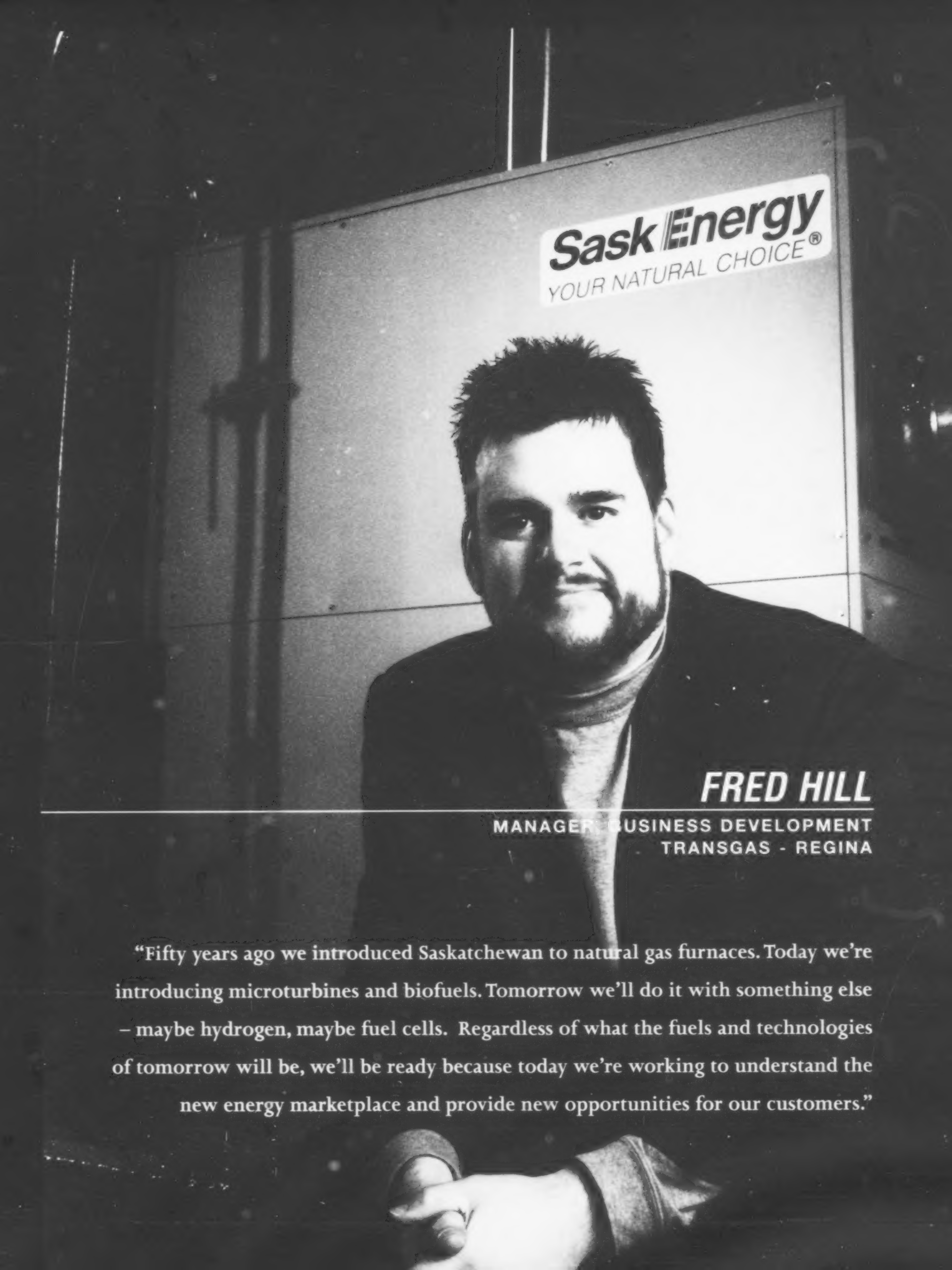
Two innovative microturbine pilot projects were launched in 2002. The first project, a partnership with SaskPower and Flatland Exploration Ltd. (a subsidiary of Bulldog Energy), is exploring the feasibility of distributed generation, the process of producing energy on a small scale at a consumer's site. In August, two 30-kilowatt microturbines became operational at one of Flatland Exploration's oil treatment and processing sites in southeast Saskatchewan near Carlyle.

***The two microturbines housed in this building at Flatland Exploration's oil battery near Carlyle burn flare gas to generate electricity and enhance the operations of the facility's oil treater.***

In this area, natural gas associated with the production of oil is normally flared to the atmosphere and the energy wasted. Burning this flare gas as fuel, the two microturbines at the Carlyle site operate at 96,000 revolutions per minute, generating enough electricity to meet the annual needs of approximately 20 households. The electricity can be used to operate oil field equipment or fed into SaskPower's electrical distribution grid, while the heat produced is used to augment the operation of the oil treater, increasing the facility's efficiency.

In October, SaskEnergy and two other partners commissioned a second pilot project at the Regina General Hospital (RGH). In addition to studying distributed generation, the $900,000 project examines cogeneration, the process of simultaneously generating and putting to productive use both heat and electricity. With the Regina Qu'Appelle Health Region providing the test site and operating staff, SaskEnergy and SaskPower had two 60-kilowatt microturbines installed at the RGH.

As they burn natural gas, the two microturbines produce heat used to help provide hot water for the hospital. At the same time, they produce electricity for delivery into SaskPower's grid. Every year, the two microturbines will produce enough heat to serve the equivalent of 50 homes, and enough electricity to supply approximately 40 households.



**FRED HILL**

MANAGER, BUSINESS DEVELOPMENT
TRANSGAS - REGINA

"Fifty years ago we introduced Saskatchewan to natural gas furnaces. Today we're introducing microturbines and biofuels. Tomorrow we'll do it with something else – maybe hydrogen, maybe fuel cells. Regardless of what the fuels and technologies of tomorrow will be, we'll be ready because today we're working to understand the new energy marketplace and provide new opportunities for our customers."

Both projects will operate for two years, and if successful, will create future business opportunities for SaskEnergy. Microturbines for health care facilities or large industrial complexes are becoming an increasingly attractive prospect for consumers wanting to optimize fuel use. And natural gas-burning microturbines that deliver "gas by wire" will provide solutions for producers moving energy from the wellhead to the electrical grid where it is too costly to move natural gas by pipeline.

In 2002, SaskEnergy also continued to promote natural gas vehicles (NGVs) as a nontraditional service offering that will contribute to the Province's energy future. Currently, 42% of SaskEnergy/TransGas fleet vehicles run on natural gas, and SaskEnergy operates five public refuelling stations for NGVs across the Province. NGV fleet owners in Saskatchewan own an additional nine refuelling stations plus a number of vehicle refuelling appliances.

More municipalities and organizations are now recognizing the fuel efficiency and environmental benefits provided by NGVs. In June, the City of Regina purchased four new paratransit buses that run solely on compressed natural gas, delivering over $10,000 in annual fuel savings. Each bus emits 20% less carbon dioxide compared to a gasoline-powered one. Based on its positive experience, the City has ordered an additional six dedicated natural gas paratransit buses for delivery in 2003.

Regina Paratransit Service
CAUTION

***By the end of 2003, the City of Regina will be operating 10 natural gas-powered paratransit buses.***

Also in 2002, the City of Regina increased its number of natural gas ice resurfacers (Zambonis) from one to three. The hockey rink in Leader became the fourteenth arena in Saskatchewan to improve its indoor air quality by using a natural gas Zamboni. In November, Moose Jaw City Council gave approval to convert part of its fleet of vehicles to natural gas. Eight vehicles and a refuelling station will be operational in 2003, growing to 18 NGVs by 2006.

Nearly 340 NGVs are currently in use in Saskatchewan. For the first time ever, total NGV fuel consumption in the Province was equivalent to just over 1,000,000 litres of gasoline in 2002. Based on an average price saving of 28 cents per litre, NGVs in Saskatchewan reduced their owners' fuel costs by $280,000 in 2002. At the same time, they reduced greenhouse gas emissions by 650 tonnes.

### *Providing Customer Solutions*

By today's standards, the natural gas furnaces of the 1950s were big, noisy and inefficient. Now, energy-conscious customers are increasingly moving to more efficient uses of natural gas. And just as with NGVs, we are using our knowledge to help them conserve energy, save money and reduce greenhouse gas emissions.

Launched in July 2001 as part of the Province's Greenprint for Energy Conservation, the SaskEnergy Prime Rate Loan Program provides an incentive interest rate for homeowners who purchase higher-efficiency natural gas heating equipment and selected appliances. The program was extended to June 30, 2003 due to strong demand. To the end of 2002, we assisted nearly 6,000 customers with $19.8 million in prime rate loans, creating over $2.5 million in interest and energy savings. The program is delivered through the 127 members of the SaskEnergy Dealer Network, private sector plumbing and heating contractors who provide a retail and service presence for a wide range of natural gas appliances, furnace maintenance services and customer loyalty tools such as AIR MILES® reward miles.

In October 2002, SaskEnergy reinforced its commitment to energy efficiency in Saskatchewan homes by working with SaskPower and Sun Ridge Group to promote EnerGuide for Houses. Under this Natural Resources Canada program, an expert provides the homeowner with a detailed report on where dollars are being spent and how energy efficiency can be improved. As part of its commitment to EnerGuide for Houses, SaskEnergy provides customers with program information, the option of incorporating the cost into their monthly SaskEnergy bills, and the ability to book audits on-line.

**ENERGUIDE FOR HOUSES**
*Advice you can live with*

In 2002, customers began to take greater advantage of services offered through www.saskenergy.com. Of 89,000 meter reads provided by customers, over 7,000 were submitted on-line, and since October 2001, approximately 7,000 **energy**check on-line energy self-audits have been completed by customers looking to reduce energy use in their homes. In total, over 8,300 customers have utilized a SaskEnergy Home Check-Up or SaskEnergy Network Home Heating Tune-Up since the program started in 2000, and close to 200 booked their appointment through our website. More than 4,800 customers signed up for the Equalized Payment Plan, with nearly 350 of them doing so on-line.

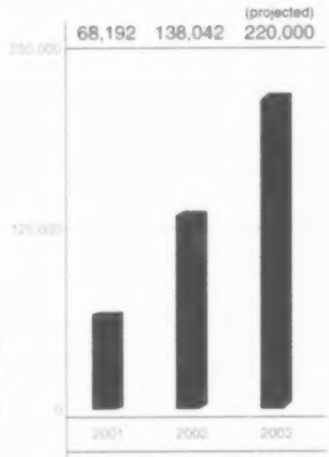
## BRENDA STEINKE

CUSTOMER SERVICE
REPRESENTATIVE
SASKENERGY - SASKATOON

"It's exciting to work with customers, exceeding their expectations by providing them with innovative solutions. I found it especially rewarding to be part of the team that developed our web-based SaskEnergy billing information service because I was able to help find another way to meet our customers' ever-changing needs."

***Customers are now taking greater advantage of the increasing number of services available through www.saskenergy.com. In 2002, they made almost 140,000 visits to the website, a year-to-year increase of over 100%.***

There were 138,042 visits to the SaskEnergy website in 2002, an increase of more than 100% over 2001. Website plans for 2003 include the development of a moving-notification application in partnership with six organizations and a Customer Account Section that will offer on-line account information.



**Number of Customer Visits to www.saskenergy.com**

### *Embracing Opportunity*

Our vision to be "Canada's leading energy company" is based on seven strategic imperatives. It is founded on our belief that business excellence demands constant attention to our key business drivers – and the ability to capture opportunities to prosper in our core business, in extra-provincial endeavours, in our communities and in an ever-changing competitive industry.

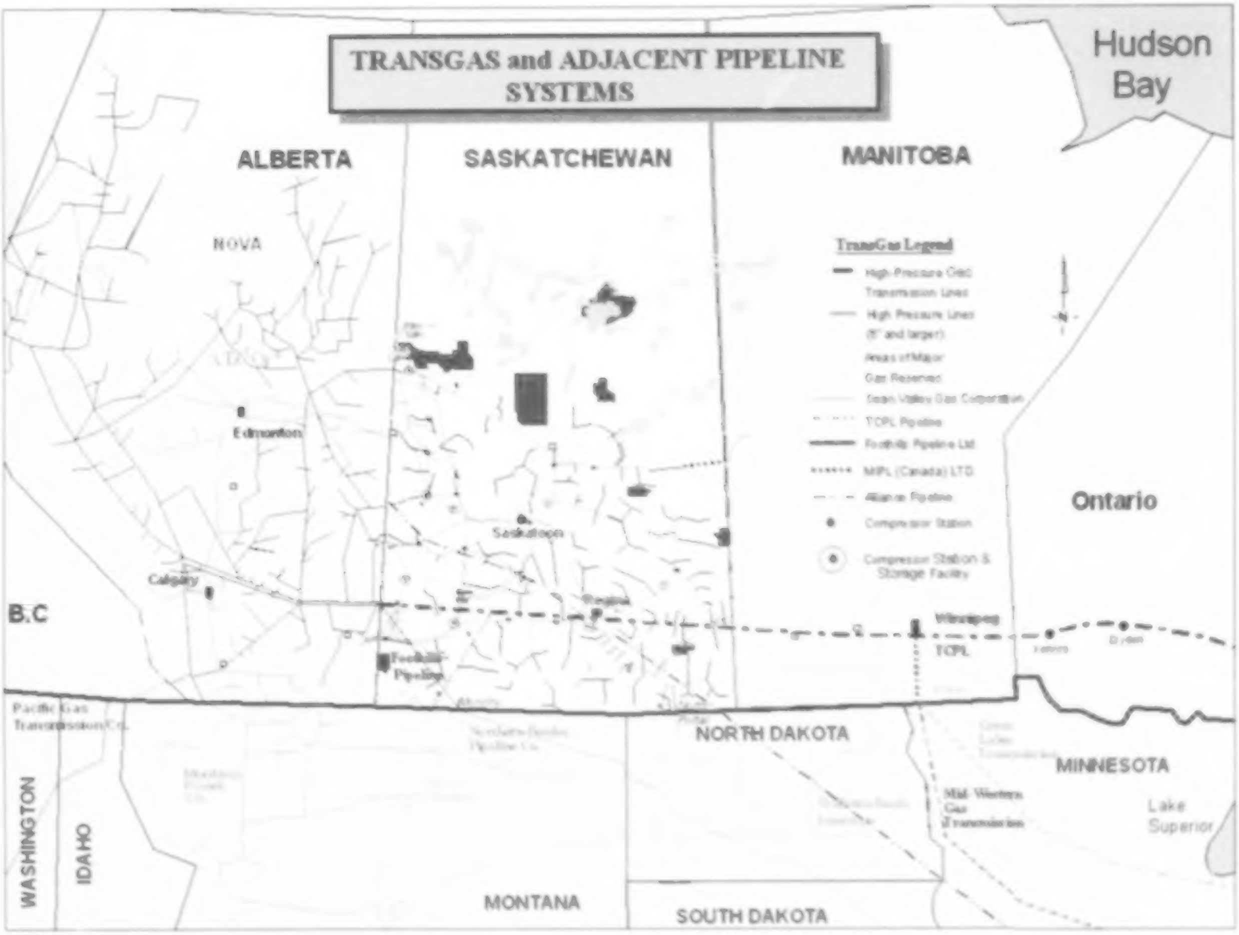
In 2002, the Corporation initiated a strategic investment that will integrate core business processes into a single software solution. Using J.D. Edwards OneWorld business models, the corporate divisions responsible for Human Resources, Finance, Payroll, Supply Chain Management and Station/Equipment maintenance began system implementation planning.

After detailed research and planning, the project began to take shape in 2002. By May, an integrated and comprehensive business case and Project Plan had been developed in order to confirm the effort, resources, interdependencies, risks and time required to complete this project successfully. In October, Deloitte & Touche was awarded a tendered contract to provide SaskEnergy and TransGas with expertise during the implementation of OneWorld. The anticipated implementation date of the project is the fourth quarter of 2003.

For SaskEnergy and TransGas, OneWorld is a strategic investment and a commitment to our future. The system will more effectively manage key functions in the Corporation. Its implementation will generate immediate and future cost savings, provide SaskEnergy and TransGas with the technical foundation for developing long-term corporate solutions, and most importantly, create standard business processes across corporate departments.

Implementing OneWorld is a carefully considered decision that moves SaskEnergy and TransGas forward and is entirely in keeping with our 50-year history. In 1952, the Corporation saw opportunity on the horizon and embraced it. And opportunity is what we see on our horizon today.

***The completion of the pipeline from Regina to Yorkton in 1959 was a landmark because it made natural gas available to all of Saskatchewan's cities at that time and began the ongoing process of providing service to the rest of the Province's communities.***



TRANSGAS and ADJACENT PIPELINE SYSTEMS

Hudson Bay
ALBERTA
SASKATCHEWAN
MANITOBA
NOVA
Edmonton
Saskatoon
Calgary
Regina
Winnipeg
TCPL
Foothills Pipeline
B.C
Ontario
TransGas Legend
High Pressure Grid Transmission Lines
High Pressure Lines (8" and larger)
Areas of Major Gas Reserves
Swan Valley Gas Corporation
TCPL Pipeline
Foothills Pipeline Ltd
MIPL (Canada) LTD
Alliance Pipeline
Compressor Station
Compression Station & Storage Facility
N
Pacific Gas Transmission Co.
Northern Border Pipeline Co.
NORTH DAKOTA
MINNESOTA
Mid-Western Gas Transmission
Lake Superior
WASHINGTON
IDAHO
MONTANA
SOUTH DAKOTA

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Discussion and Analysis is a review of the strategic financial direction, performance measurement, results of operations, risk factors and outlook of SaskEnergy Incorporated (SaskEnergy or the Corporation) and its subsidiaries for the year ended December 31, 2002. This discussion should be read in conjunction with the audited consolidated financial statements of the Corporation and the notes thereto contained in this annual report.

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    of Saskatchewan .........................75

# I. OVERVIEW AND STRATEGIC FOCUS

## A. Vision and Company Profile – Who We Are and What We Do

### Our Strategic Corporate Direction

SaskEnergy's vision is to be "Canada's leading energy company" by anticipating our customers' changing needs and providing innovative and responsive solutions. This vision is supported by a proud heritage which has been built upon the existing strengths of SaskEnergy. To support and enhance Saskatchewan's competitive position and to be an integral part of the Province's economic prosperity, the Corporation has leveraged its core competencies in the areas of natural gas distribution, transmission and storage. This core business excellence is the mainstay of SaskEnergy's strategic corporate direction, and continues to provide the expertise required to seize new growth opportunities.

### Our Heritage

SaskEnergy's core businesses are natural gas distribution, operated within SaskEnergy and referred to as the Local Distribution Company (LDC), and natural gas transmission and storage services provided by TransGas Limited (TransGas), a wholly-owned subsidiary of SaskEnergy. The employees of these companies provide natural gas and related services to fulfill the needs of consumers, producers and gas marketers. This is achieved while focusing on customer service excellence and ensuring a safe and reliable system.

The LDC is a natural gas distribution service provider which successfully serves over 323,000 residential, commercial and industrial customers within the Province of Saskatchewan. This includes over 65,000 kilometres of urban and rural natural gas piping systems serving more than 90 per cent of the communities in the Province.

TransGas is a natural gas transmission and storage service provider with nearly 14,000 kilometres of high-pressure pipelines that constitute a transmission and gathering network in the Province of Saskatchewan, with interconnects with other pipeline facilities serving Alberta, Manitoba and the United States. TransGas receives natural gas from the natural gas producing areas of Saskatchewan and delivers it to customers within Saskatchewan including the LDC, and for export out of the Province.

## B. KEY PERFORMANCE DRIVERS - WHAT DRIVES OUR RESULTS

SaskEnergy's results are dependent upon the ability to execute the strategy and achieve the desired outcome.

The key performance drivers and the factors affecting results are as follows:

**KEY PERFORMANCE DRIVERS**

| Local Distribution Company | TransGas |
|---|---|
| **The number of customers served and the volume of gas distributed are affected by:**<br>• Winter weather<br>• Natural gas prices<br>• New customer connections<br>• Level of use per customer<br>• Economics of natural gas relative to other forms of energy<br>• Provincial economic growth<br>• Commercial and industrial development | **The volumes of natural gas receipts onto the transmission system and deliveries from the transmission system are affected by:**<br>• Volume of natural gas production<br>• Discovery of new reserves<br>• Development of existing reserves through natural gas well drilling programs<br>• Economics of natural gas production in Saskatchewan versus other jurisdictions<br>• Consumption levels by end-use customers |

## C. Capabilities – Ability to Deliver Results

### Employees

SaskEnergy is proud of its employees who have a proven 50-year track record of operating a safe and reliable system. The dedicated employees of the LDC and TransGas have strong capabilities which include providing high-quality customer service, and acquiring, maintaining and developing the technical expertise and knowledge required to operate complex systems and processes.

### Physical System

The SaskEnergy/TransGas natural gas distribution and transmission network provides natural gas access to over 90 per cent of Saskatchewan's communities. This extensive network has been developed since the 1950s and is now one of the longest systems in any jurisdiction in North America.

SaskEnergy and TransGas operate a safe, reliable and economic system that delivers natural gas in the harshest conditions. Programs are currently in place to ensure long-term system integrity. Steel pipe is cathodically protected and monitored, and regular leak and odorant surveys are conducted. An ongoing Integrity Management Program helps in the prevention of integrity issues to ensure the safe and reliable operation of the system.

Operationally, SaskEnergy and TransGas are moving ahead with programs that ensure the safe and reliable movement of natural gas through the systems, including the replacement of older equipment and facilities, as necessary, to ensure that natural gas systems are utilized at an optimum level and that customers can be assured their natural gas requirements will be met.

### Products and Services

Natural gas is an environmentally-friendly, clean-burning source of energy. In Saskatchewan, there is wide access to natural gas and it is an economic source of energy relative to available alternatives. SaskEnergy and TransGas currently provide distribution and transmission services, while remaining a low-cost operator. The Corporation will meet future demand in the same manner – by challenging existing processes and providing innovative solutions as it strives to achieve core business excellence.

## D. MEASUREMENT AND TRACKING
## THE BALANCED SCORECARD – MEASURING OUR PERFORMANCE

SaskEnergy measures its performance on key success factors through a process known as the Balanced Scorecard. The financial targets in the Balanced Scorecard are based on standard financial performance measures for regulated Canadian natural gas distribution and transmission utilities.

### THE BALANCED SCORECARD

**Shareholder Value**

| Objectives (Annualized) | Measures | Results 2000 | Results 2001 | Results 2002 | Target 2002 [6] | Target 2003 [6] | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Provide industry comparable returns for the shareholder | Consolidated Net Earnings ($ millions) | 44 | (15) | 7 [3] | 53 | 55 | 52 | 50 | 54 | 54 |
| | Rate of Return on Equity - Consolidated | 14.8% | Nil [1] | 2.3% [4] | 18.0% | 17.9% | 15.4% | 14.3% | 14.5% | 13.8% |
| | LDC – Rate of Return on Equity – Core | 4.5% | Nil [2] | Nil [5] | 9.0% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% |
| | TransGas – Rate of Return on Equity – Core | 14.2% | 13.2% | 12.3% | 12.0% | 10.6% | 11.0% | 11.0% | 11.0% | 11.0% |
| | Debt/Equity Ratio – Consolidated | 70/30 | 74/26 | 73/27 | 72/28 | 70/30 | 70/30 | 69/31 | 68/32 | 67/33 |
| | LDC – Debt/Equity Ratio | 60/40 | 56/44 | 60/40 | 60/40 | 60/40 | 60/40 | 60/40 | 60/40 | 60/40 |
| | TransGas – Debt/Equity Ratio | 68/32 | 65/35 | 65/35 | 65/35 | 65/35 | 65/35 | 65/35 | 65/35 | 65/35 |
| | Dividend – (per cent of net earnings) | 55% | 0% | 65% | 65% | 65% | 65% | 65% | 65% | 65% |

[1] 17.0 per cent before the effect of the Gas Cost Variance Account (GCVA)

[2] 0.7 per cent before the effect of the GCVA

[3] Consolidated net earnings for 2002 were $48 million before taking into account the effect of the GCVA. Future commodity rate adjustments to recover the GCVA would increase consolidated net earnings accordingly.

[4] 16.4 per cent before the effects of the GCVA

[5] 1.9 per cent before the effects of the GCVA

[6] The forecast net earnings for 2002 and 2003 and Rate of Return on Equity for the consolidated entity and the LDC exclude the 2002 effect of the GCVA.

## THE BALANCED SCORECARD

### Competitive Rates

| Objectives (Annualized) | Measures | Results 2000 | Results 2001 | Results 2002 | Target 2002 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Provide fair, competitive and stable rates | Achieve the lowest weighted average cost of gas among the provincial utilities | Lowest | Lowest | 2nd Lowest | Lowest | Lowest | Lowest | Lowest | Lowest | Lowest |
| | TransGas Export Rates | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL | Lower than TCPL/ NGTL |

TCPL/NGTL is the major intra-Alberta natural gas transmission pipeline system and has similar characteristics to TransGas.

The following is a discussion of the objectives listed in the above Balanced Scorecard. For discussion of actual performance against the associated target, and the plans for achieving the performance target, refer to the financial operating summary.

### 1. Provide Industry Comparable Returns

#### Consolidated Net Earnings

SaskEnergy operates both utility (referred to as core) and non-utility businesses (referred to as non-core). Core earnings refer to the earnings generated from the Corporation's two major business units: natural gas distribution and natural gas transmission. The net earnings of these two business units form the majority of the consolidated net earnings, and are primarily dependent upon the level of return on equity and capital structure as allowed by the Government of Saskatchewan.

#### Rate of Return on Equity – Core

Rate of return on equity is the primary measure of profitability for a regulated natural gas utility. The rate of return on equity for natural gas distribution and transmission utilities in Canada is in the range of nine per cent to 13 per cent. In Canada, a regulator commonly sets the rate of return on equity. The rate of return on equity varies primarily due to the relative level of risk associated with each individual utility.

The long-term rate of return on equity target for the Corporation's core utility operations is 10.5 per cent for the LDC and 11.0 per cent for TransGas.

Debt-to-Equity Ratio

Each regulated natural gas utility in Canada has a capital structure that provides for a theoretically optimum balance between the debt and equity needed to finance the purchase and construction of assets. The capital structure is also intended to reflect the relative risk inherent in the business of each utility. Generally, in Canada, a typical capital structure for a regulated natural gas utility consists of 60 per cent to 65 per cent debt and 40 per cent to 35 per cent equity.

For regulatory purposes, the LDC has a long-term capital structure target of 60 per cent debt and 40 per cent equity. Similarly, TransGas has a long-term capital structure target of 65 per cent debt and 35 per cent equity. The Corporation's long-term target for the consolidated entity is 65 per cent debt and 35 per cent equity.

Dividend

Crown Investments Corporation of Saskatchewan (see page 75) established a dividend policy for all the Crown corporations within its purview. In accordance with this policy, SaskEnergy pays dividends set at a rate of 65 per cent of net earnings in 2003 and for all subsequent years until the Corporation reaches a consolidated debt-to-equity target of 65 per cent debt and 35 per cent equity.

2. **Provide Fair, Competitive and Stable Rates to Customers**

Local Distribution Company

The target for the LDC is to achieve the lowest weighted average cost of gas among the Canadian provincial utilities. SaskEnergy's cost of gas has consistently been among the lowest of the provincial natural gas distribution utilities.

TransGas

A key objective for TransGas is to achieve long-term rate stability. TransGas' rates remained unchanged for the period from January 1, 1999 to December 31, 2002.

## II. FINANCIAL OPERATING SUMMARY

### CONSOLIDATED OPERATIONS

### A. 2002 RESULTS

**Net earnings (loss)** *(millions of dollars)*

| Entity | 2001 Actual | 2002 Actual | 2002 Business Plan[1] | 2003 Business Plan[1] |
|---|---|---|---|---|
| LDC – Operations | $ 1.3 | **$ 3.8** | $ 17.7 | $ 20.4 |
| TransGas | 49.8 | **43.3** | 40.2 | 19.0 |
| Bayhurst Gas Limited | 5.0 | **4.6** | 2.0 | 23.1 |
| Many Islands Pipe Lines (Canada) Limited | 0.5 | **0.4** | 0.1 | 0.2 |
| SaskEnergy International Incorporated | (0.8) | **(0.8)** | (0.9) | (0.7) |
| Swan Valley Gas Corporation | (0.2) | **(0.2)** | | (0.1) |
| Intercompany | (4.7) | **(3.0)** | (5.9) | (6.5) |
| Net earnings from operations | 50.9 | **48.1** | 53.2 | 55.4 |
| Gas Cost Variance Account | (66.3) | **(41.2)** | | |
| Consolidated net earnings (loss) | $ (15.4) | **$ 6.9** | $ 53.2 | $ 55.4 |

The forecast net earnings for 2002 and 2003 excludes the 2002 effect of the Gas Cost Variance Account.

Effective January 2003, the Beacon Hill storage field assets were transferred from TransGas to Bayhurst Gas Limited.

For additional information on the GCVA refer to the critical accounting policies on page 48.

Consolidated net earnings, before the effects of the Gas Cost Variance Account (GCVA), were $48 million for 2002, which was $5 million below budget. The LDC's net earnings target of $18 million was not achieved as delivery rates were not increased, there was a loss from gas marketing activities, and the expenses were greater than forecast. TransGas net earnings were $43 million, which was $3 million higher than the 2002 Business Plan due to storage gas sales being above budget by $4 million and transportation revenue being below budget by $1 million.

In 2002, the Corporation incurred a loss on commodity sales of $41 million. The effect of this loss was to reduce net earnings from the $48 million noted above to $7 million.

The net earnings of the subsidiaries were higher than the 2002 Business Plan primarily due to higher royalties in Bayhurst Gas Limited (Bayhurst) and higher transportation revenue in Many Islands Pipe Lines (Canada) Limited (MIPL).

# II. FINANCIAL OPERATING SUMMARY

## CONSOLIDATED OPERATIONS

### A. 2002 RESULTS

**Net earnings (loss) (millions of dollars)**

| Entity | 2001 Actual | 2002 Actual | 2002 Business Plan[1] | 2003 Business Plan[1] |
|---|---|---|---|---|
| LDC - Operations | $ 1.3 | **$ 3.8** | $ 17.7 | $ 20.4 |
| TransGas[2] | 49.8 | **43.3** | 40.2 | 19.0 |
| Bayhurst Gas Limited[2] | 5.0 | **4.6** | 2.0 | 23.1 |
| Many Islands Pipe Lines (Canada) Limited | 0.5 | **0.4** | 0.1 | 0.2 |
| SaskEnergy International Incorporated | (0.8) | **(0.8)** | (0.9) | (0.7) |
| Swan Valley Gas Corporation | (0.2) | **(0.2)** | - | (0.1) |
| Intercompany | (4.7) | **(3.0)** | (5.9) | (6.5) |
| Net earnings from operations | 50.9 | **48.1** | 53.2 | 55.4 |
| Gas Cost Variance Account[3] | (66.3) | **(41.2)** | - | - |
| Consolidated net earnings (loss) | $ (15.4) | **$ 6.9** | $ 53.2 | $ 55.4 |

[1] The forecast net earnings for 2002 and 2003 excludes the 2002 effect of the Gas Cost Variance Account.

[2] Effective January 2003, the Beacon Hill storage field assets were transferred from TransGas to Bayhurst Gas Limited.

[3] For additional information on the GCVA refer to the critical accounting policies on page 48.

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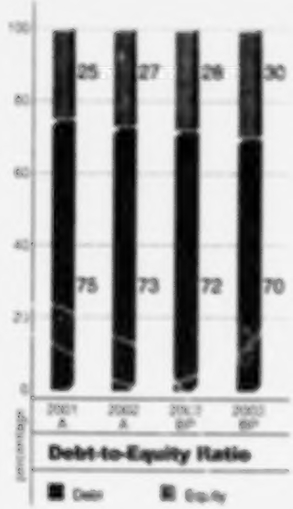
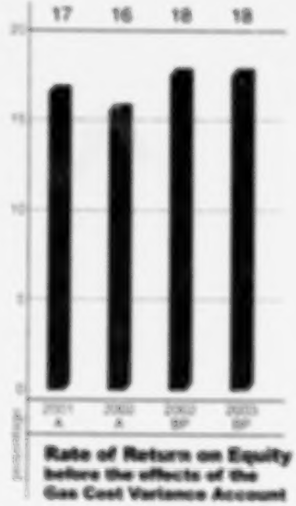


**Debt-to-Equity Ratio**



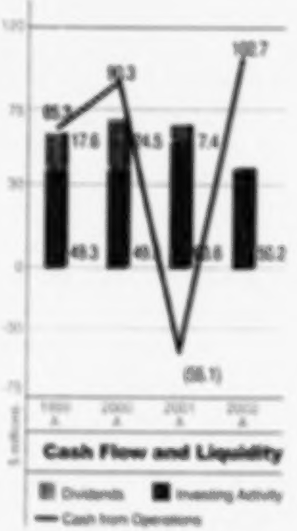
**Rate of Return on Equity before the effects of the Gas Cost Variance Account**

The achieved debt-to-equity ratio of 73 per cent debt and 27 per cent equity approximated the 2002 Business Plan.

The Rate of Return on Equity, excluding the effects of the GCVA, was 16 per cent. This is below the 2002 Business Plan due to lower than budgeted net earnings.

## B. Liquidity and Capital Resources

SaskEnergy requires capital to finance its assets, maintain system integrity and meet its growth objectives. This capital is typically generated through operating activities or by borrowing from the Province of Saskatchewan. As illustrated in the accompanying chart, prior to 2001 SaskEnergy generated sufficient cash from operations to meet dividend requirements to Crown Investments Corporation of Saskatchewan (CIC), internally finance capital expenditures and reduce the level of outstanding debt. In 2001, accumulations in the GCVA reduced cash from operations and limited SaskEnergy's ability to further reduce its debt obligations. In 2002, cash from operations was applied to investing activities and to the increase in the balance of the GCVA.



**Cash Flow and Liquidity**

A=Actual BP=Business Plan

## C. BUSINESS RISKS AND RISK MANAGEMENT

The transmission, storage, distribution and sale of natural gas involve a wide range of business and financial risks, many of which are beyond SaskEnergy's control. These risks include, but are not limited to, fluctuations in natural gas prices, interest rates, winter weather, provincial economic and market factors, insurable risks, credit risk, and regulatory risk. The following is a description of these risks, the potential impact upon SaskEnergy and TransGas and the risk management processes established to mitigate these risks.

### Natural Gas Prices

The volatility of natural gas prices is extreme in relation to price movements of other widely-traded commodities. Natural gas prices are affected by regional weather conditions, North American supply and demand and the relative economics of alternative energy sources.

SaskEnergy purchases natural gas on the open market for sale to its retail customers. Purchasing natural gas in a market subject to extreme price fluctuations presents considerable financial risk. Consequentially, SaskEnergy has the ability to engage in hedging activities in order to fix the cost of natural gas by using financial instruments.

Natural gas prices also affect SaskEnergy's natural gas transmission business. The level of natural gas prices affects the development of natural gas reserves in Saskatchewan. Higher natural gas prices promote greater natural gas exploration and development activity, which in turn increases production thereby increasing the volume of throughput on TransGas' pipeline system.

### Interest Rate Risk

Similar to other natural gas distribution and transmission utilities, SaskEnergy has a large capital investment in physical assets. The majority of these capital expenditures are financed through debt. Consequently, changes in interest rates can affect financial performance.

As at December 31, 2002, SaskEnergy had approximately $619 million of long-term debt including repayments to be made in 2003, and $173 million of short-term debt (owing to the Province of Saskatchewan). This debt consists of 30 individual loans with specific maturity dates. On average, including debt with a maturity date within one year, approximately $246 million of debt will mature and be re-issued over the next five years. To manage the impact of interest rates on the re-issuance of this debt, SaskEnergy may use financial derivatives such as interest rate swaps, forward rate agreements, and options.

### Weather

In Saskatchewan, variability in weather temperatures during the heating load season has a direct impact on natural gas consumption. SaskEnergy reduces the impact weather may have on revenue by recovering a portion of the cost of providing service through a fixed monthly charge.

### Provincial Economic and Market Factors

Economic conditions and market factors affect SaskEnergy and TransGas in three ways. First, the population decline in rural Saskatchewan has resulted in excess capacity in certain rural systems, which is somewhat balanced by the opportunity to make this capacity available to new commercial customers such as hog barns or oilfields. Second, the growth of urban centres has put more pressure on the urban systems to meet the added demand. Third, SaskEnergy currently serves over 90 per cent of communities within Saskatchewan. Therefore, opportunities to increase volumes distributed within the existing geographic area are limited and it is economically challenging to serve those customers presently unserved. As well, conservation initiatives by customers have reduced the average volume of gas usage per customer. Consequently, optimizing the use of SaskEnergy's assets is dependent upon provincial economic conditions to provide incremental demand.

### Insurable Risks

SaskEnergy carries insurance to protect itself against financial loss due to the destruction of or damage to its property and equipment. Liability insurance is also maintained at appropriate levels to limit the financial impact of unforeseen incidents that may give rise to liability claims against SaskEnergy. The Corporation's insurance program is reviewed annually to ensure that coverage is maintained at acceptable limits. Due to strains on the insurance markets caused by the events of September 11, 2001, insurance costs have increased substantially.

### Credit Risk

Credit risk arises from the sales of natural gas and the utilization of pipeline facilities by customers as well as from counterparties with whom financial transactions are conducted. To mitigate the risk of customer or counterparty failure, SaskEnergy has established specific policies and procedures to assess, measure and monitor the amount of credit extended to individual customers and counterparties. These policies and procedures ensure that the financial impact of customer or counterparty default is minimized.

### Regulatory Risk

Regulatory risk is the uncertainty presented by the regulatory environment within which a utility operates. Saskatchewan does not have a quasi-judicial regulatory system. However, the Government of Saskatchewan has created the Saskatchewan Rate Review Panel to review and make recommendations to the Provincial Cabinet on the fairness of rate changes proposed by SaskEnergy and certain other Crown corporations.

## D. Disclosure of Critical Accounting Policies and Estimates

The company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP) applied on a consistent basis and includes certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenues and expenses. The accounting policies are summarized in Note 2 to the accompanying Consolidated Financial Statements. Accounting policies and estimates with significant impact are as follows:

### Gas Cost Variance Account

SaskEnergy uses a Gas Cost Variance Account (GCVA) to accumulate the difference between commodity sales revenue and the related cost of gas sold. Subject to approval of the Government of Saskatchewan, balances are either recovered from or refunded to customers in future rates. This account is used to ensure that SaskEnergy neither earns a profit nor incurs a loss on the sale of commodity over the long term. The change in the balance of the GCVA is included as a component of the cost of gas sold. As a result, a profit or a loss on commodity sales may occur during a fiscal period. Rate changes in future periods would be expected to result in an offsetting profit or loss in subsequent periods.

As at May 31, 2001, a balance had accumulated in the GCVA whereby the cost of gas exceeded commodity revenue by $75.9 million. Effective May 31, 2001, the Government of Saskatchewan directed SaskEnergy not to increase its commodity rates to recover the $75.9 million shortfall. As a result, SaskEnergy's customers received a benefit of $75.9 million in terms of reduced gas costs.

During 2002, commodity gas costs had again exceeded commodity sales revenue (see Note 4 to the accompanying Consolidated Financial Statements.) As at December 31, 2002, a decision had not been made as to whether future rates would be increased to recover this shortfall.

### Competitive Gas Sales

The primary purpose of the LDC is to supply natural gas to customers who use the gas primarily for heating their premises. Consumption of natural gas in Saskatchewan is therefore cyclical and periods exist where pipeline and storage capacity are not used to their fullest extent. In order to take advantage of underutilized capacity during these off peak periods, the distribution utility may enter into transactions whereby it purchases gas, places it into storage and earns a margin by selling it in the open market at a later date. These types of transactions are referred to in this annual report as competitive gas sales.

Competitive gas sales transactions may occur where the sale or purchase price is determined initially but the settlement price is finalized at a later date. During the period between the purchase or sale of the gas and the date of settlement, the profit (or loss) is recorded in the statement of earnings and is determined by comparing the purchase price to the current market price. The foregoing accounting policy is in accordance with Abstract 128 issued on June 6, 2002 by the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA).

### Gas Price Hedging

The majority of natural gas purchase contracts are priced according to a monthly average market price. To help avoid potential wide fluctuations in prices, SaskEnergy may utilize financial instruments offered by financial institutions or other counterparties to exchange a variable price for a fixed price. These financial instruments result in either the receipt of funds by the Corporation or the payment of funds to the counterparty depending on whether the market price is above or below the agreed upon fixed price. The payments made to or received from counterparties are included in the cost of gas.

### Revenue Recognition

Delivery and commodity revenues are recognized when natural gas is delivered to customers. Since it is not cost effective to read all customer meters on the same day at the end of a financial reporting period, the revenue associated with the volume of gas delivered but not yet billed must be estimated. The volume of unbilled sales is determined by comparing the total volume of gas purchased by the distribution system to the total estimated volume of gas delivered to customers. Volumes purchased are reconciled to volumes billed using regular meter readings throughout the year.

## LOCAL DISTRIBUTION COMPANY (LDC) 2002 RESULTS

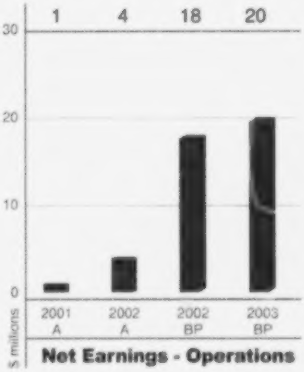
This section should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

## LDC RESULTS FROM OPERATIONS

### Description of Key Drivers

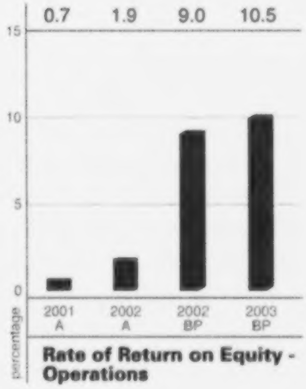
Net Earnings - Operations

Net Earnings from Operations are the net financial results from the LDC's delivery business and exclude the effect of any gain or loss on commodity sales.



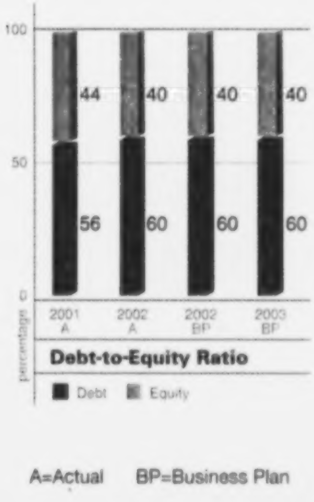
Rate of Return on Equity - Operations

Return on equity is a measure that indicates the rate of return on the equity investment of the entity's owner.



Debt-to-Equity Ratio

This ratio displays the proportion of the entity's capital structure that is represented by debt and by the owner's equity investment.



A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan**

The LDC's net earnings from operations were $3.8 million for 2002 compared to a Business Plan target of $17.7 million. The net earnings target was not achieved due to a revenue shortfall, a loss on gas marketing activities and higher than expected operating expenses.

The rate of return on equity from operations of 1.9 per cent was significantly below the Business Plan target of 9.0 per cent largely due to the revenue shortfall. Delivery rates were not adjusted during 2002.

The LDC maintains a debt-to-equity ratio of 60 per cent debt and 40 per cent equity which is comparable to other Canadian natural gas distribution utilities. During 2002, additional equity was received to maintain the targeted debt-to-equity ratio.

**2002 Compared to 2001**

The net earnings from operations were $3.8 million compared to $1.3 million in 2001. Delivery revenue for 2002 was $11.7 million ahead of 2001 due to the distribution of larger volumes. Colder than normal weather during April, May and October 2002 resulted in increased heating loads compared to 2001. Higher expenses in 2002 offset the impact of the increased revenue in 2002.

**2003 Outlook**

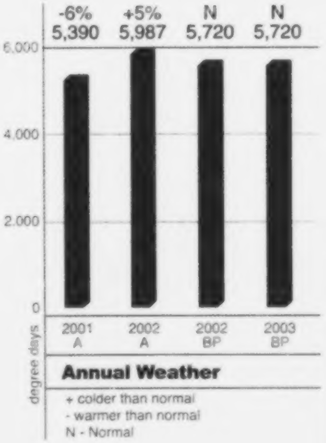
The LDC's 2003 Business Plan has target net earnings of $20 million from operations and a rate of return on equity of 10.5 per cent. Achievement of this target will require revenue increases to cover the impact of pressures on operating costs over recent years and the anticipated impact of a continued reduction in volumes consumed by residential customers.

## LDC KEY OPERATIONAL PERFORMANCE MEASURES

### Description of Key Drivers

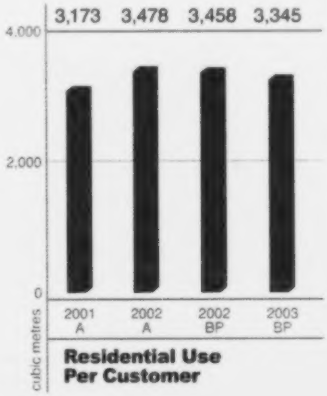
**Annual Weather**

Outside temperatures are a key factor in the volume of natural gas consumed as SaskEnergy's customers use gas primarily for space heating purposes. The standard of measure for weather impact is degree days. The number of degree days accumulated over the year heavily influences the volume of natural gas distributed. Business plans are prepared on the basis of the 30-year average of degree days.



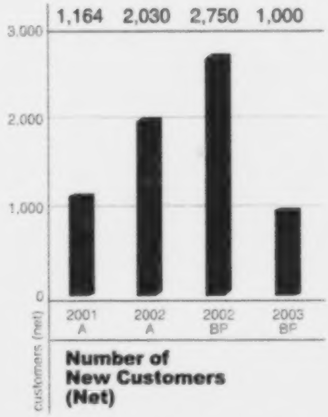
**Residential Use Per Customer**

The average natural gas use per residential customer is impacted by weather and the energy efficiency of customers' appliances and residences.



**Number of New Customers (Net)**

The number of customers added to the distribution system directly impacts the volume of natural gas distributed. The net growth is determined by the number of customers added to the distribution system less the number of customers to whom gas service has been disconnected.



A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan**

For 2002, volumes distributed were one petajoule below the Business Plan. While warmer than normal weather during the prime winter heating load season was largely offset by colder than normal weather during April, May and October, anticipated new commercial and industrial loads did not materialize as forecast in the Business Plan.

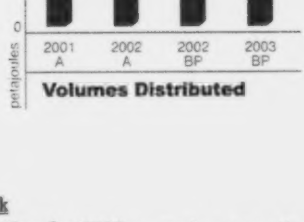
The number of net new customer additions was 2,030 which was less than the Business Plan target of 2,750. New customer additions occurred mainly in the larger urban centres.

**2002 Compared to 2001**

Volumes distributed were six petajoules higher in 2002 compared to 2001, reflecting colder weather year-over-year.

Weather normalized residential use per customer continued to decline as customers upgraded their heating systems with more efficient furnaces and improved home insulation. Over the past five years, average use per customer, excluding the impact of weather variations, has declined by five per cent.

The addition of 2,030 customers to the distribution system was significantly higher than the 1,164 during 2001.



**2003 Outlook**

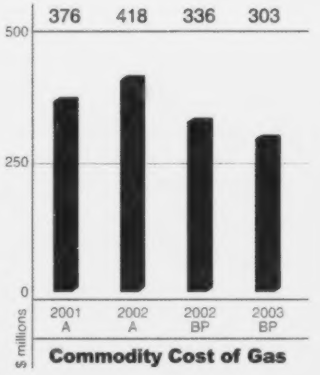
The Business Plan for 2003 recognizes a continuation in the adoption of more energy-efficient appliances and residential housing construction. As a result, residential use per customer, assuming normal winter weather, is forecast to decline by three per cent to 3,345 cubic metres annually. New customer additions are forecast at 1,000, reflecting moderate growth.

## LDC COMMODITY AND COST OF GAS

### Description of Key Drivers

Commodity Cost of Gas

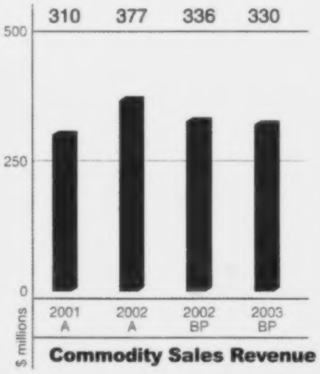
Natural gas is purchased in the open market for sale to customers. Commodity costs include the cost of gas at a notional hub in the Province known as the TransGas Energy Pool (TEP). Costs include the purchase cost at the gas field (fieldgate) plus transport cost to TEP. Commodity costs include net receipts and payments resulting from contracts made to reduce gas price risk.



Commodity Cost of Gas

Commodity Sales Revenue

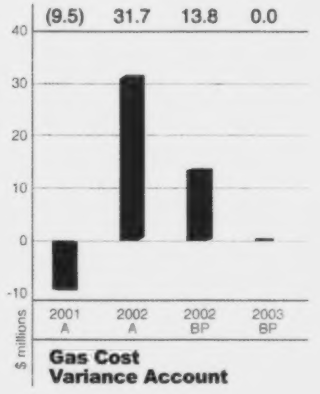
Natural gas is sold to customers at a rate designed to recover the cost of acquiring gas at TEP. Rates are designed so that over the long term, SaskEnergy neither profits from nor incurs a loss on commodity sales.



Commodity Sales Revenue

Gas Cost Variance Account (GCVA)

This account accumulates the difference between commodity sales revenue and the cost of gas. The balance in this account is either refunded to or recovered from customers in future rates. The change in the balance of the GCVA is included as a component of the cost of gas for the fiscal period.



Gas Cost Variance Account

A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan**

The cost of gas exceeded commodity sales revenue by $41.2 million.

This shortfall reflects a higher than expected current year cost of gas of $31.7 million due to the following:

- The Business Plan factored in lower natural gas purchase price assumptions than were realized.
- Warmer than normal weather during the months of November 2001 to February 2002 required the sale of surplus gas at prevailing market prices which were below the cost of acquiring that gas, resulting in under-recovery of 2002 gas costs.

A refund of the 2001 gas cost over-recovery of $9.5 million is included as a component of the 2002 cost of gas.

For commodity rate purposes, the $31.7 million under-recovery of gas costs in 2002 will be included as a cost to be recovered in subsequent commodity rate adjustments.

**2002 Compared to 2001**

During the first half of 2001, natural gas prices reached historical highs, resulting in an under-recovery of $75.9 million. The Government of Saskatchewan directed SaskEnergy to absorb this revenue shortfall. During the last half of 2001, a commodity rate increase, combined with a decline in the cost of purchased gas, resulted in an over-recovery of gas costs of $9.5 million from June to December 31, 2001. This over-recovery was refunded to customers through a lower commodity rate during 2002.

**2003 Outlook**

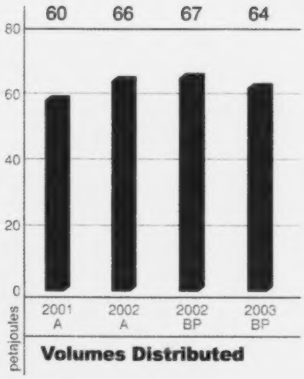
Revenue adjustments and/or sustained lower market prices for natural gas would be required to recover the 2002 GCVA balance of $31.7 million combined with the estimated cost of gas purchases in 2003.

## LDC DELIVERY REVENUE

### Description of Key Drivers

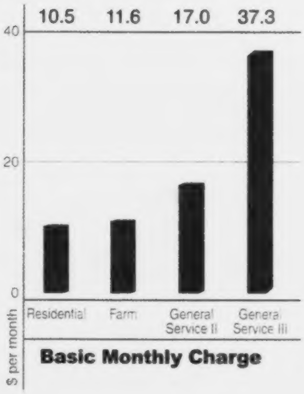
Volumes Distributed

The volume of gas distributed is a key driver as the majority of retail delivery revenue is dependent on the volume of gas distributed.



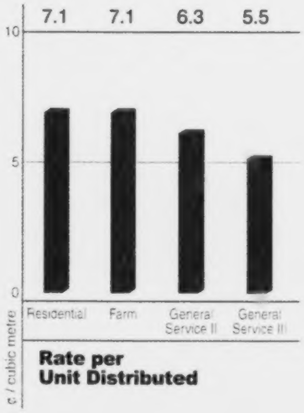
Basic Monthly Charge

Each delivery revenue customer is billed a basic monthly charge. This charge recovers the fixed cost of the service line, meter reading and customer account administration irrespective of the volume of gas distributed. This amount is approximately 28 per cent of retail delivery revenue.



Rate per Unit Distributed

Customers are billed for the cost of delivering gas from the TransGas Energy Pool to the customer's service location. Approximately 72 per cent of the retail delivery revenue is earned through this volume-based charge.



A=Actual BP=Business Plan

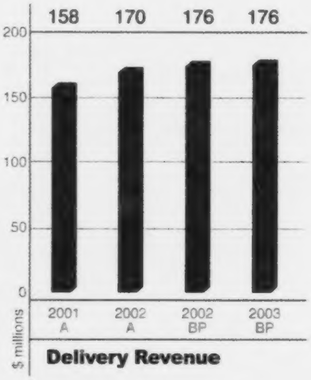
### Financial Results

#### 2002 Results Compared to Business Plan

Delivery revenue was $5.8 million less than the Business Plan anticipated. Lower than anticipated delivery rates account for $4.6 million of this variance. Lower than expected volumes delivered to large commercial and industrial customers accounted for the remaining shortfall in delivery revenue of $1.2 million.

#### 2002 Compared to 2001

An increase in the volume of gas distributed during 2002 compared to 2001 generated additional revenues of $11.7 million. Average temperatures during 2002 were colder than 2001, particularly during the spring and fall months, which resulted in a $10.8 million increase in delivery revenue. New customers largely account for the remaining $0.9 million incremental revenue over 2001.



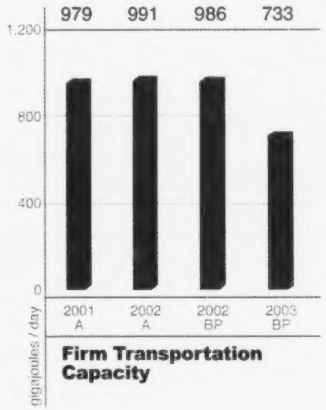
#### 2003 Outlook

Delivery revenue for 2003 reflects the impact of incremental customer energy conservation and moderate customer growth. Total volumes distributed during 2003 are forecast to be three petajoules below the 2002 Business Plan.

## LDC DELIVERY TRANSPORTATION AND STORAGE EXPENSE

### Description of Key Drivers

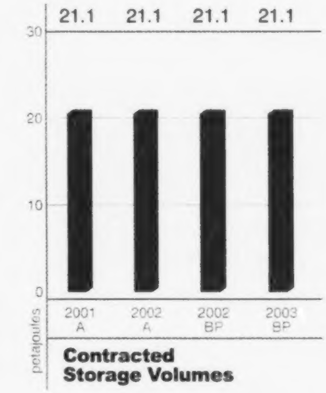
Firm Transportation Capacity
The LDC contracts for capacity on the TransGas System to transport natural gas from its point of purchase to the inlet of the LDC's distribution system. Capacity requirements must be sufficient to ensure gas delivery to all customers during the coldest weather expected.



**Firm Transportation Capacity**

Contracted Storage Volumes
The LDC contracts for storage capacity with TransGas. Natural gas is injected during the summer months and subsequently withdrawn during the winter heating load season.

Contracted storage capacity refers to the total volume of natural gas that the LDC requires at the beginning of the heating load season to meet expected withdrawals from storage through the winter.

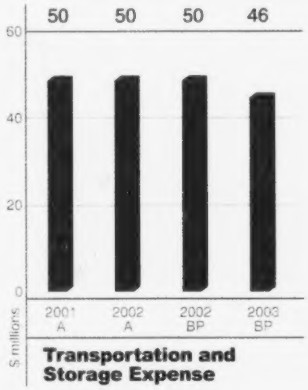


**Contracted Storage Volumes**

A=Actual BP=Business Plan

### Financial Results

2002 Results Compared to Business Plan
Firm transportation capacity and contracted storage costs were incurred as anticipated in the 2002 Business Plan.



**Transportation and Storage Expense**

2003 Outlook
Effective 2003, TransGas will introduce changes to its rate structure for transportation and storage service. These changes will realign rates such that there will no longer be a separate charge to transport gas from field receipt points to storage and a separate charge to move gas from storage to the TransGas Energy Pool. The impact of this change is forecast to reduce delivery transportation and storage expense by $4.5 million for 2003.

## LDC OPERATING AND MAINTENANCE EXPENSES

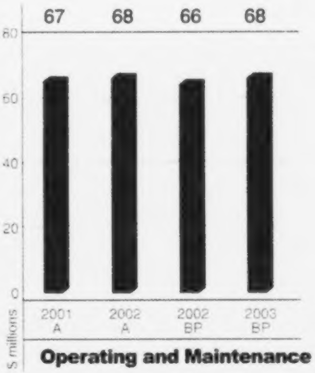
### Description of Key Drivers

Operating and Maintenance Expenses

This expense category includes all costs incurred to operate and maintain the distribution system.

Operating expenses associated with commodity acquisition are charged to the cost of gas.

Major expenses include costs for labour, materials, supplies, vehicle fleet, information systems, contract resources, office facilities, insurance, bad debt, internally consumed natural gas and energy conservation initiatives.



A=Actual BP=Business Plan

### Financial Results

**2002 Results Compared to Business Plan**

Operating and Maintenance (O & M) expenses were $2.0 million above the level anticipated in the Business Plan.

SaskEnergy participated in the Saskatchewan Greenprint Program commencing in 2001 to provide prime rate interest loans to customers installing energy-efficient natural gas appliances. Because customer demand for this program exceeded expectations, it was extended through 2002/2003 and accounts for $0.7 million of the over-expenditure.

Higher natural gas commodity rates over the past two years have resulted in an increase in bad debt expense compared to historical experience which accounts for increased costs of $0.8 million in 2002.

Expenses for various materials, supplies, vehicle fuel, maintenance and insurance premiums amounted to $0.5 million above the Business Plan.

Wages, salaries and related benefit expenses of $43.4 million approximated the Business Plan.

**2002 Compared to 2001**

O & M expenses were $1.4 million higher than 2001, reflecting increased labour and related employee benefit expenses of $1.6 million while non-labour costs were $0.2 million below 2001 levels. Cost savings were initiated during 2002 by streamlining operations, implementing technological advancements and pursuing new business initiatives.

**2003 Outlook**

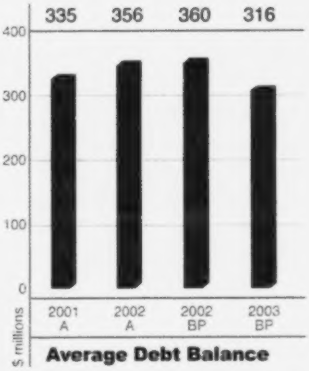
Labour costs are forecast to increase by two per cent in 2003 reflecting pay rate adjustments partially offset by a decline in the number of full-time equivalent positions. Cost increases are forecast for contracted services, insurance premiums and operating materials and supplies. The Greenprint Program will continue until June 2003 and is projected to cost $0.6 million for the year. Continued efforts to streamline operational and administrative business processes and the use of technology will help to minimize O & M expense increases.

# LDC INTEREST EXPENSE

## Description of Key Drivers

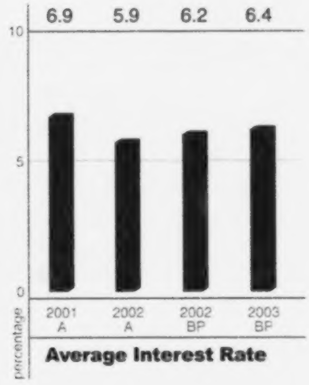
Average Debt Balance

The average monthly balance of long-term debt and short-term debt is used to calculate the average debt outstanding for the year.



Average Interest Rate

The average interest rate is calculated by dividing the annual interest cost by the average debt outstanding.

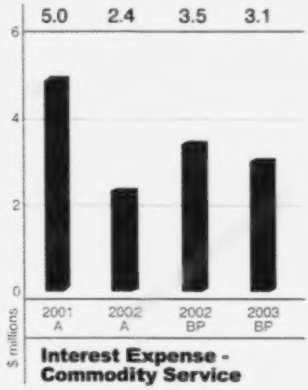


A=Actual BP=Business Plan

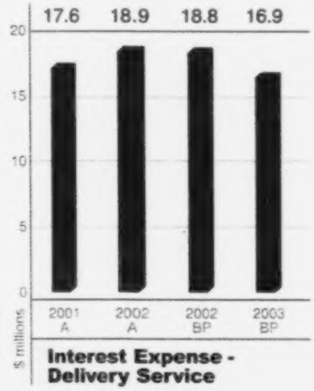
## Financial Results

### 2002 Results Compared to Business Plan

Interest costs are charged to either the commodity service or the delivery service according to the financial requirements of each of these service offerings. Short-term borrowing rates averaged 2.5 per cent, compared to a Business Plan assumption of 5.0 per cent, resulting in reduced interest costs.



Interest expense allocated to the commodity service was $1.1 million lower due to more favourable interest rates, partially offset by the unplanned growth in the Gas Cost Variance Account balance due from customers.



Interest costs incurred by the delivery business, while benefiting from the lower short-term interest rates, were up marginally, reflecting larger borrowings because of the lower than budgeted earnings from operations.

### 2003 Outlook

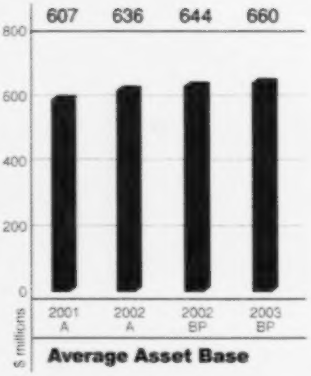
A continued low interest rate environment is forecast for 2003.

## LDC CAPITAL EXPENDITURES AND DEPRECIATION EXPENSE

### Description of Key Drivers

Average Asset Base

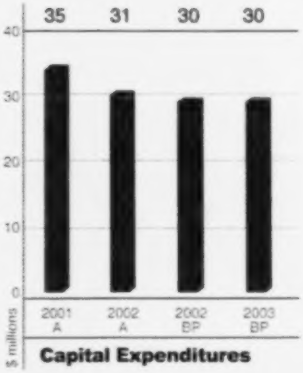
This is the average balance of property, plant and equipment in service during the year.



**Average Asset Base**

Capital Expenditures

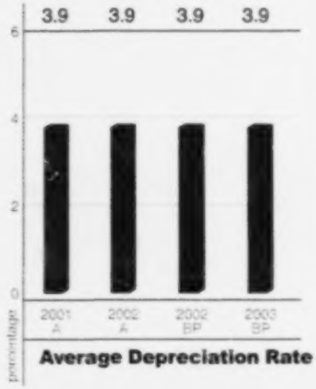
These are the expenditures for property, plant and equipment including new facilities and equipment and system improvements which extend the economic useful life of existing facilities.



**Capital Expenditures**

Average Depreciation Rate

This is the composite depreciation rate calculated by dividing the total depreciation expense by the average asset cost base.



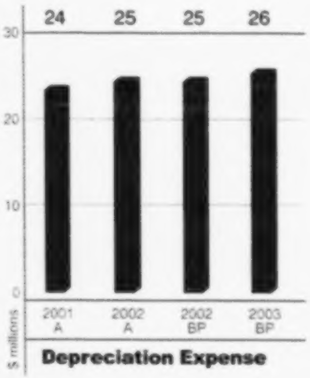
**Average Depreciation Rate**

A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan**

Depreciation expense was $0.4 million less than the Business Plan due to a smaller beginning of the year asset base than anticipated in the 2002 Business Plan. While new customer connections were down, additional system improvement projects were completed, resulting in total capital expenditures of $30.8 million compared to a Business Plan assumption of $29.8 million. The additional system improvement work included upgrades to improve safety and enhance operational efficiencies.



**Depreciation Expense**

**2002 Compared to 2001**

Depreciation expense for 2002 was $0.9 million more than 2001, reflecting growth in the asset base related to 2001 capital additions.

Capital expenditures were $30.8 million in 2002 compared to $35.2 million for 2001. During 2001, installation of facilities to serve a large co-generation project and construction of customer service facilities accounted for the larger expenditures compared to 2002.

**2003 Outlook**

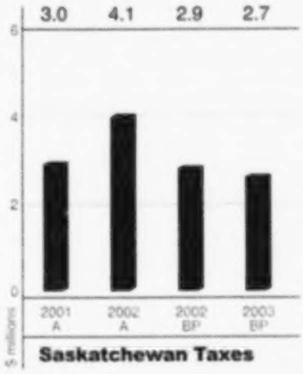
Capital expenditures for 2003 are expected to be similar to 2002. Net new customer additions of 1,000 customers are forecast combined with continued system improvements to maintain system integrity and enhance operational efficiency.

## LDC SASKATCHEWAN TAXES AND MUNICIPAL PAYMENTS

### Description of Key Drivers

**Saskatchewan Taxes**

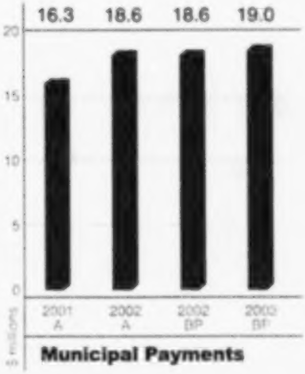
SaskEnergy pays a statutory corporate capital tax to the Province of Saskatchewan. This tax is calculated on capital employed.



**Saskatchewan Taxes**

**Municipal Payments**

SaskEnergy is legislated to make payments in lieu of property taxes to 109 urban municipalities. Municipal payments are calculated as a percentage of total delivery and commodity revenue.



**Municipal Payments**

A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan**

Corporate capital tax for 2002 was $1.2 million greater than the Business Plan, reflecting growth in the taxable capital base and an adjustment for 2001.

Payments to municipalities of $18.6 million approximated the level forecast in the Business Plan.

**2002 Compared to 2001**

Municipal payments for 2002 were $2.3 million above 2001 levels. This increase reflects higher delivery and commodity revenues in 2002 compared to 2001. The colder year-over-year weather resulted in an increase in the volume of gas distributed.

**2003 Outlook**

Saskatchewan taxes are forecast based on the anticipated taxable capital base for 2003. Municipal payments are estimated based on revenues as forecast in the Business Plan.

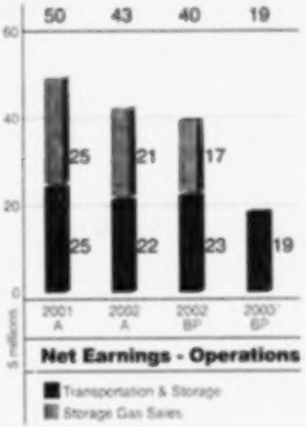
## TRANSGAS LIMITED 2002 RESULTS

This section should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

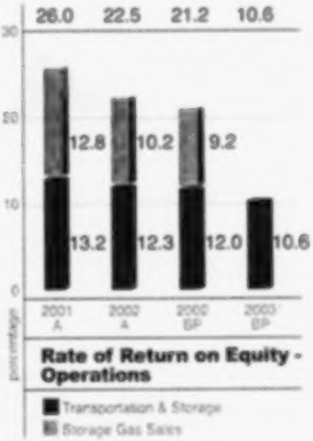
## TRANSGAS RESULTS FROM OPERATIONS

### Description of Key Drivers

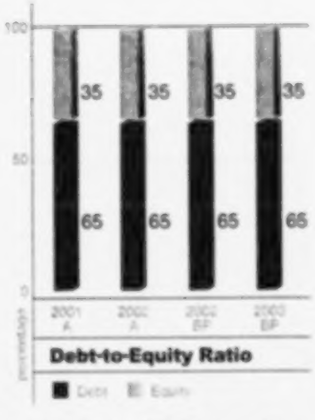
**Net Earnings - Operations**
Net Earnings are the net financial result from TransGas Limited's operations.



**Rate of Return on Equity - Operations**
Return on equity is a measure that indicates the rate of return on the owner's equity investment.



**Debt-to-Equity Ratio**
This is the proportion of the entity's capital structure that is represented by debt and by the owner's equity investment.



A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan**
TransGas net earnings for 2002 were $43 million, comprised of net earnings from transportation and storage of $22 million and storage gas sales of $21 million.

This was $3 million higher than the 2002 Business Plan.

**Transportation and Storage**
Net earnings from transportation and storage were $1 million below the 2002 Business Plan primarily as a result of lower compression and gathering revenue.

**Storage Gas Sales**
Net earnings from storage gas sales for 2002 were $21 million, $4 million greater than the Business Plan of $17 million. This was due to a combination of both lower than expected cost of gas and expenses related to gas sales. Gas with a lower-than-budget net book value was sold, resulting in a lower cost of gas. Expenses related to storage gas sales were less than budget as a result of both a decrease in royalty expense due to lower production volumes and natural gas prices, and lower depreciation expense due to depreciation rates that were revised to reflect the extended economic life of the storage fields.

Overall rate of return on equity was 22.5 per cent compared to the 2002 Business Plan of 21.2 per cent as net earnings from storage gas sales were higher than the Business Plan. The debt-to-equity ratio target of 65 per cent debt and 35 per cent equity was achieved.

**2002 Compared to 2001**
The 2002 net earnings were lower than 2001 due to lower transportation and storage revenue and a corporate decision to sell less natural gas from storage.

**2003 Outlook**
The 2003 net earnings for transportation and storage are forecast to be less than 2002 levels primarily due to higher operating and maintenance expenses.

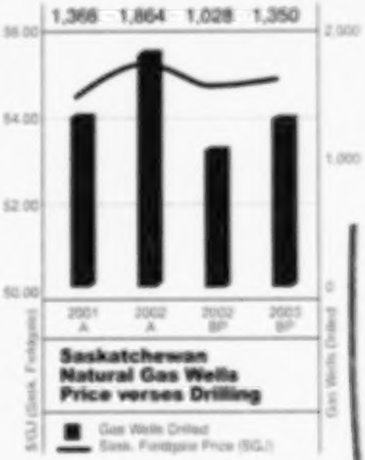
[1] Effective January 2003, the Beacon Hill storage field assets were transferred from TransGas Limited to Bayhurst Gas Limited (an affiliate). The 2003 net earnings from storage gas sales, which will be part of Bayhurst Gas Limited, are forecast to be $21 million.

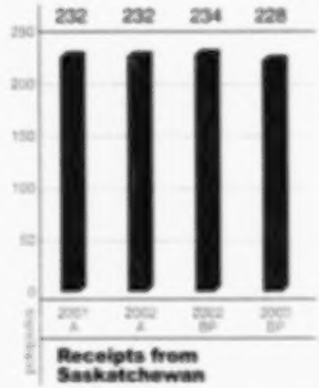
## TRANSGAS KEY OPERATIONAL PERFORMANCE MEASURES

### Description of Key Drivers

**Gas Wells Drilled in Saskatchewan**

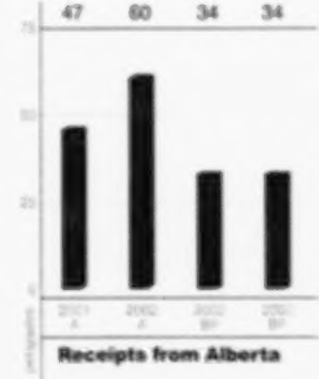
The number of gas wells drilled in Saskatchewan is a key indicator of the future level of Saskatchewan natural gas production.





**Energy Transported**

A key performance measure for TransGas is the amount of energy transported on the transmission pipeline system (receipts and deliveries).



A=Actual BP=Business Plan

### Financial Results

**2002 Results Compared to Business Plan**

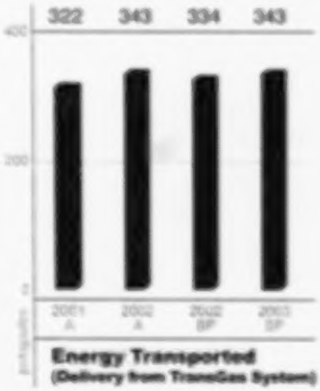
Energy transported in 2002 was greater than the 2002 Business Plan (three per cent higher) and 2001 levels (seven per cent higher) partially due to higher receipts from Alberta.

**2002 Compared to 2001**

In 2002, 1,864 natural gas wells were drilled in Saskatchewan, an increase of 36 per cent from 2001 levels, setting an all-time record. In the fall of 2002, gas receipts from the new discovery in the Shackleton area (northwest of Swift Current) began flowing, with flows from this area totaling 60TJ's/day by the end of December 31, 2002.

While the higher drilling activity in 2002 did not elevate Saskatchewan receipts above the 2002 Business Plan, receipts from the Shackleton area will continue to be strong, offsetting the declining natural gas production rates on existing gas wells in other areas.

Receipts from Alberta surpassed 2001 levels, primarily from the Corporation's gas marketing activities.



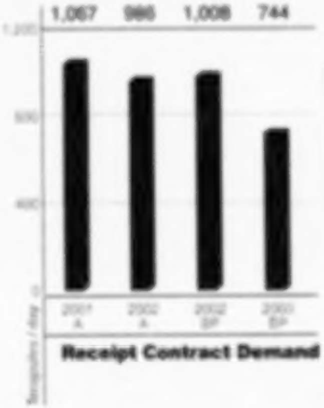
**2003 Outlook**

Total energy transported in 2003 is forecast to remain relatively constant compared to 2002. Due to continued strong gas well drilling activities in the Shackleton region of the province, the estimate for wells drilled during 2003 has been expanded from the initial 2003 Business Plan estimate of 964 gas wells to 1,350.

## TRANSGAS TRANSPORTATION AND STORAGE REVENUE

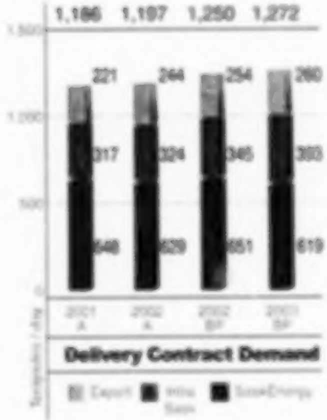
### Description of Key Drivers

**Receipt Contract Demand**
Receipt contract demand represents the maximum quantity of gas in any one day that a customer has a reserved right to transport from a point of receipt to the TransGas Energy Pool (TEP).



Receipt Contract Demand

**Delivery Contract Demand**
Delivery contract demand represents the maximum quantity of gas in any one day that a customer has a reserved right to transport through the TransGas transmission facilities.



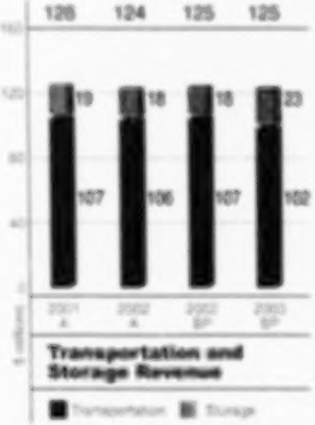
Delivery Contract Demand

A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan**
Transportation revenue is determined primarily by the shipper's level of fixed contracted transportation capacity (contracted firm demand). Transportation revenue for 2002 was one per cent lower than 2002 Business Plan levels primarily due to lower compression and gathering revenue. The lower receipt contract demand levels were a result of customers maximizing their utilization of existing contracts and taking advantage of the more flexible interruptible service.

Storage revenue in 2002 approximated both 2001 and 2002 Business Plan levels, as storage is fully contracted.



Transportation and Storage Revenue

**2002 Compared to 2001**
Transportation revenue for 2002 was two per cent lower than in 2001, due to lower compression and gathering revenues.

The delivery contract demand within the Intra (Saskatchewan) customer category increased by two per cent from 2001 actual levels. Export contract demand increased by 10 per cent from 2001 levels. These increases were offset by a decrease in receipt contract demand of eight per cent.

**2003 Outlook**
The outlook for 2003 is comparable to 2002 performance. Following a three-year rate freeze, TransGas service rates and charges will increase by an average of two per cent in January 2003. This general increase is followed by revisions in May 2003 required to accommodate the commercial movement of storage to the TransGas Energy Pool (TEP). Although the 2003 forecasted transportation and storage revenue is comparable with 2002 actual levels, due to the May 2003 changes, transportation revenue will decline with an offsetting increase in storage revenue.

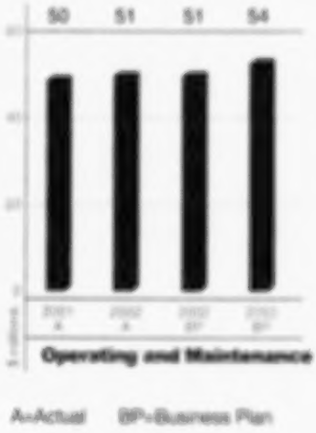
## TRANSGAS OPERATING AND MAINTENANCE EXPENSES

**Description of Key Drivers**

Operating and Maintenance Expenses

This expense category includes all costs incurred to operate and maintain the transmission and storage systems.

Operating and maintenance expenses include costs for labour, materials, supplies, vehicle fleet, information systems, contract resources, office facilities, insurance, energy and natural gas used in operations.



**Financial Results**

**2002 Results Compared to Business Plan**

Operating and Maintenance (O & M) expenses for 2002 were comparable to the 2002 Business Plan. Favourable variances in both the Operating and Labour categories of O&M were virtually offset by a provision for lower storage volumes.

The main component of the favourable variance in the Operating category was increased capitalization. This was caused by resource allocation of work to capital projects due to more time spent on system integrity projects than anticipated which resulted in reduced regular maintenance. Energy costs were also under budget, due to lower natural gas costs relating to the operation of storage compressors.

Labour was lower primarily due to fewer staff resources than anticipated in the Business Plan.

A provision was taken to reflect lower natural gas volumes at a storage location, thereby increasing this category of expenses above the Business Plan.

**2002 Compared to 2001**

O & M expenses increased from 2001 by $1 million, primarily due to the natural gas in storage provision taken during the year (as discussed above).

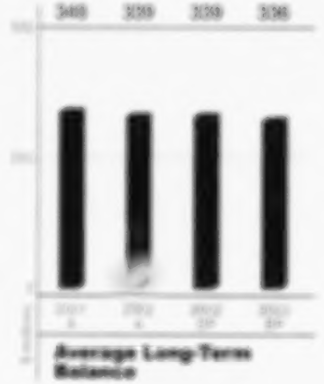
**2003 Outlook**

Labour costs are forecast to increase by two per cent in 2003 reflecting labour cost adjustments partially offset by a decline in the number of full-time equivalent positions. Cost increases are forecast for contracted services, insurance premiums and operating materials and supplies. Resources allocated to capital in 2002 will be re-allocated to regular maintenance within the Operating category in 2003. Continued efforts to streamline operational and administrative business processes and the use of technology will help minimize O & M increases.

## TRANSGAS INTEREST EXPENSE

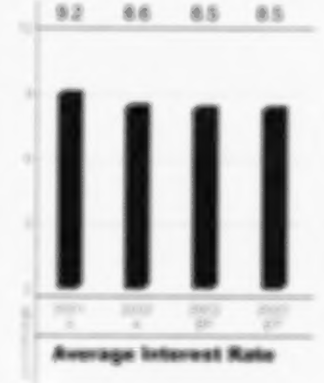
**Description of Key Drivers**

Average Long-Term Debt Balance
The average monthly balance of long-term debt.



Average Long-Term Balance

Average Interest Rate
The average interest rate is calculated by dividing the annual interest cost by the total debt outstanding.



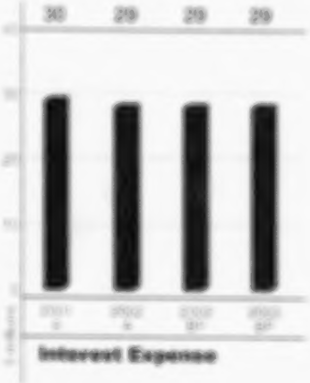
Average Interest Rate

A=Actual BP=Business Plan

**Financial Results**

**2002 Results Compared to Business Plan**
Interest expense was on budget for 2002 and remained relatively consistent to 2001.

During 2002, investing activities such as capital expenditures were funded by cash provided by operating activities, therefore there were no new long-term debt requirements in 2002.



Interest Expense

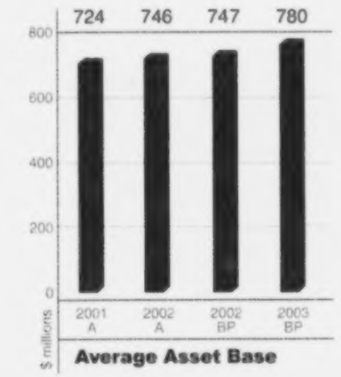
**2003 Outlook**
Interest expense for 2003 is expected to remain consistent with 2002, as the increased level of long-term debt required to fund investing activities will be at a lower average interest rate.

While capital expenditures are expected to increase in 2003, funding for these expenditures is expected to come from cash provided by operating activities.

## TRANSGAS CAPITAL EXPENDITURES AND DEPRECIATION EXPENSE

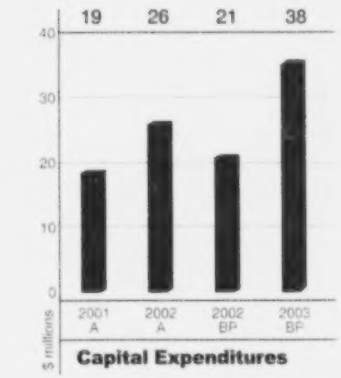
### Description of Key Drivers

**Average Asset Base**
This is the average balance of property, plant and equipment in service during the year.



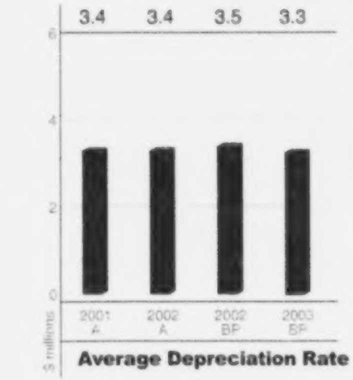
**Average Asset Base**

**Capital Expenditures**
Capital expenditures consist primarily of system improvements required to maintain the integrity of the pipeline and storage infrastructure, as well as any expenditures intended to expand the existing systems.



**Capital Expenditures**

**Depreciation Expense**
The purpose of depreciation expense is to allocate the costs of capital assets over their estimated life, using a rational and systematic basis for this allocation.



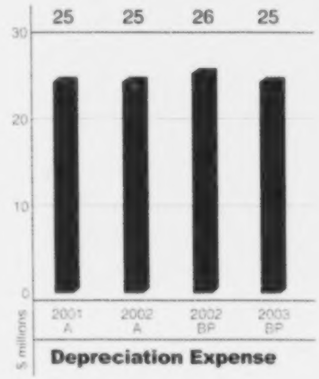
**Average Depreciation Rate**

A=Actual BP=Business Plan

### Financial Results

**2002 Results Compared to Business Plan**
Capital expenditures in 2002 were $5 million higher than the 2002 Business Plan primarily due to infrastructure related to the discovery of new natural gas reserves in the Shackleton area.

Depreciation expense was slightly lower than the 2002 Business Plan due to the reduced depreciation rates on storage field assets associated with storage gas sales. Depreciation matches the period of gas production from these fields, which is expected to be completed by 2007.



**Depreciation Expense**

**2002 Compared to 2001**
Capital expenditures from 1999 to 2001 were in the $15 to $20 million range. Capital expenditures in 2002 were $7 million higher than 2001 primarily due to the new natural gas reserves at Shackleton, as noted above.

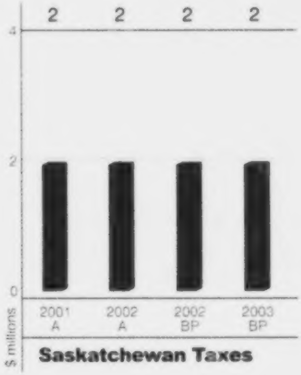
**2003 Outlook**
The 2003 capital expenditures are expected to be higher than 2002 due to system improvements required to maintain the integrity of the infrastructure. Additional future capital expenditures also include the expansion of TransGas' existing storage capacity.

# TRANSGAS SASKATCHEWAN TAX AND MUNICIPAL PAYMENTS

## Description of Key Drivers

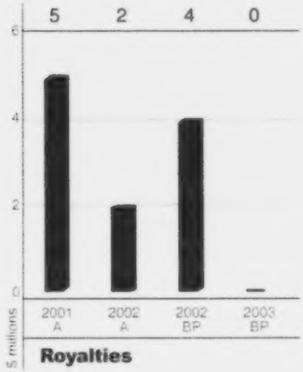
### Saskatchewan Taxes

TransGas pays a statutory corporate capital tax to the Province of Saskatchewan. This is calculated on capital employed.



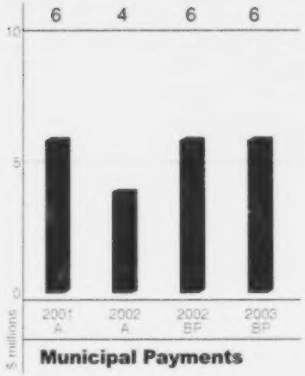
### Royalties

Royalties are paid to the Province of Saskatchewan on natural gas removed from specified storage facilities.



### Municipal Payments

In accordance with regulations under The SaskEnergy Act, TransGas is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the specified urban municipalities. Municipal payments also include mitigation payments, and property taxes paid to 14 municipalities where TransGas has underground facilities.



A=Actual BP=Business Plan

## FINANCIAL RESULTS

### 2002 Results Compared to Business Plan

Saskatchewan taxes were $2 million for 2002, which equals the amount of the 2002 Business Plan.

Royalties, which are paid to the Province of Saskatchewan on natural gas removed from storage facilities in west-central Saskatchewan (storage gas sales), were $2 million lower than the Business Plan due to both lower than expected production volumes and natural gas prices.

### 2002 Compared to 2001

Royalties were $3 million lower than 2001 due to both lower production volumes and natural gas prices.

Payments to municipalities were $4 million in 2002 compared to $6 million in 2001. This decline was primarily due to the decrease in the average price of gas transported in 2002 compared to 2001.

### 2003 Outlook

Royalties are expected to decrease for 2003, as the royalties associated with storage gas sales will be part of Bayhurst Gas Limited. Effective January 2003, the Beacon Hill storage field assets were transferred from TransGas Limited to Bayhurst Gas Limited (an affiliate). The 2003 royalties on storage gas sales, as part of Bayhurst Gas Limited, are forecast to be $2 million.

## SUBSIDIARIES AND NON-CORE BUSINESS 2002 RESULTS

This section should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

## SASKENERGY INTERNATIONAL INCORPORATED

### Description of Key Drivers

SaskEnergy International Incorporated (SEII)

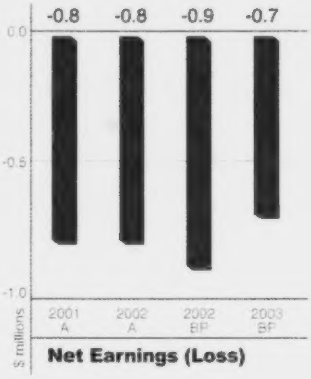
SEII was created in 1996 to market SaskEnergy's world-class expertise and investigate opportunities to invest in emerging natural gas distribution, transmission and storage systems.

Investments

SEII's primary focus is Latin America, one of the fastest growing natural gas markets in the world. As of December 31, 2002, SEII had $16.3 million invested in two Latin American natural gas companies:

Gas Sur S.A. (Gas Sur)
Ownership Interest - 30%
$12.6 million invested

Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex)
Ownership Interest - 12.4%
$3.7 million invested



A=Actual BP=Business Plan

### FINANCIAL RESULTS

**2002 Results Compared to Business Plan and 2001**

Overall, SEII's loss to December 31 was under budget $0.1 million. SEII's favourable variance of $0.1 million reflected lower than expected interest expense and labour costs.

As of December 31, 2002, SEII held a 30 per cent ownership in Gas Sur and a 12.4 per cent ownership in Igasamex. SEII recorded its share of the earnings of Gas Sur based on its share of ownership. The 12.4 per cent investment in Igasamex is accounted for using the cost method.

**2003 Outlook**

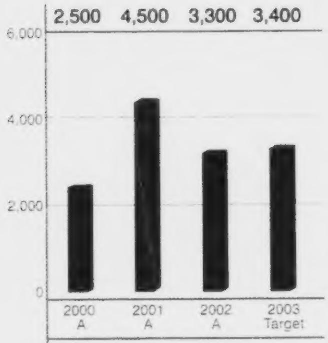
SEII expects that both Gas Sur and Igasamex will be profitable in 2003.

## INTERNATIONAL INVESTMENTS

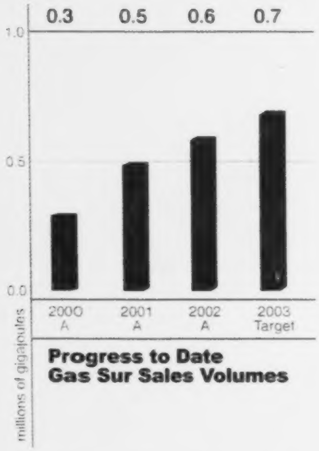
### CHILE – GAS SUR S.A. (GAS SUR)

Based in Concepción/Talcahuano, Gas Sur is a natural gas distribution company serving the 8th region of Chile. SEII owns 30 per cent of Gas Sur S.A. and has $12.6 million invested. An additional investment of $1.1 million ($0.7 million United States Dollars) has been approved to fund SaskEnergy International's share of Gas Sur's future capital requirements.

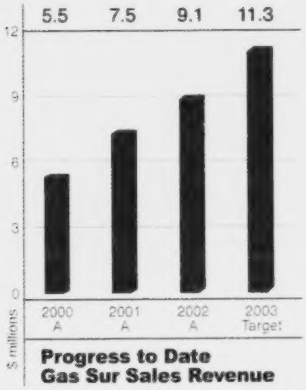
The following illustrates Gas Sur's progress to date with respect to customers, sales volumes, sales revenue and cash from operations:



**Progress to Date**
**Gas Sur Customer Additions**

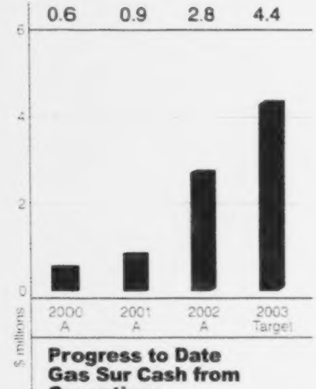


**Progress to Date**
**Gas Sur Sales Volumes**



**Progress to Date**
**Gas Sur Sales Revenue**

A=Actual



**Progress to Date**
**Gas Sur Cash from Operations**

### MEXICO – INTEGRATED GAS SERVICES DE MEXICO, S. DE R.L. DE C.V. (IGASAMEX)

Based in Mexico City, Igasamex provides natural gas transmission service to Mexico's commercial and industrial customers. In March 2002, SEII purchased a 12.4 per cent interest in Igasamex for $3.7 million. An additional $15.1 million ($9.7 million United States Dollars) has been approved to invest in Igasamex in the future.

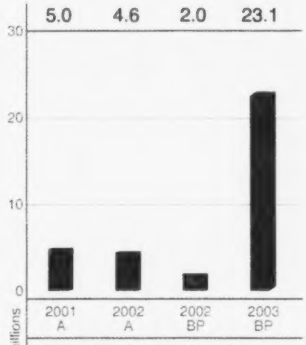
In 2002, Igasamex completed three new natural gas pipeline laterals, bringing the total number of laterals flowing gas to 14. At the end of 2002, Igasamex had 56 commercial and industrial customers, as well as an additional 32 under contract to receive gas in the future.

## OTHER SUBSIDIARIES - RESULTS FROM OPERATIONS

### Description of Key Drivers

Bayhurst Gas Limited (Bayhurst)

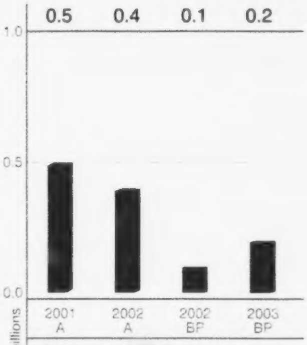
Bayhurst owns a gross overriding royalty on approximately 450 properties located in Saskatchewan and Alberta.



**Bayhurst Gas Limited Net Earnings**

Many Islands Pipe Lines (Canada) Limited (MIPL)

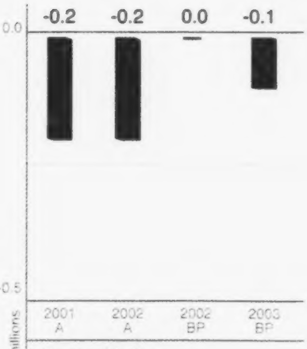
MIPL owns and operates 14 natural gas transmission pipelines which interconnect with other pipeline facilities at the Saskatchewan, Alberta, Manitoba, and United States borders.



**Many Islands Pipe Lines (Canada) Limited Net Earnings**

Swan Valley Gas Corporation (SVGC)

SVGC was formed in 2000 to own and operate a natural gas distribution utility in the Swan Valley area in western Manitoba.



**Swan Valley Gas Corporation Net Earnings (Loss)**

A=Actual BP=Business Plan

### Financial Results

### 2002 Results Compared to Business Plan and 2001

Bayhurst Gas Limited

Bayhurst's net earnings were $4.6 million in 2002 (2001 net earnings of $5.0 million) on royalty revenues of $4.3 million (2001 royalty revenue of $5.9 million). Revenue in 2002 was lower than 2001 due to lower natural gas prices in 2002.

Many Islands Pipe Lines (Canada) Limited

MIPL's net earnings were $0.4 million in 2002 (2001 net earnings of $0.5 million) on revenues of $3.6 million (2001 revenue of $3.6 million). MIPL's revenue was consistent with 2001.

Swan Valley Gas Corporation

SVGC's loss was $0.2 million in 2002 (2001 loss of $0.2 million) on revenues of $0.7 million ($0.6 million revenue of 2001). New customer connections have not occurred as quickly as expected, resulting in a shortfall in delivery revenue.

### 2003 Outlook

The 2003 forecast net earnings for these subsidiaries are comparable to the current levels. The increase in 2003 net earnings in Bayhurst is represented by the storage gas sales from the storage gas field assets that were transferred from TransGas (an affiliate) effective January 1, 2003. Of the Bayhurst net earnings forecast of $23.1 million for 2003, $2.0 million is royalty revenue and $21.1 million is storage gas sales. In SVGC, further marketing efforts will be pursued in 2003 to increase the number of customers.

## NON-CORE BUSINESS – NET SALES FROM GAS MARKETING

### Description of Key Drivers

Net Sales from Gas Marketing

SaskEnergy and TransGas purchase and sell natural gas in the open market.

Gas sales activities are conducted as follows:

Gas Marketing

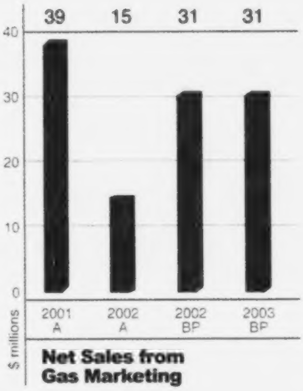
Transportation and storage capacity are leveraged so that gas may be purchased and sold for a profit margin.

Contract Industrial Sales

The LDC bids on the sale of natural gas to large industrial customers. These customers are supplied on the basis of specific supply contracts where the LDC earns a margin.

Storage Gas Sales

TransGas sells gas from non-operational storage fields. The sales revenue less the cost of natural gas sold results in net revenue.



A=Actual BP=Business Plan

### Financial Results

**2002 Results**

The sale of gas from non-operational storage fields resulted in a net profit margin of $15.9 million in 2002. Additional net margins of $0.7 million were earned on contracts to supply gas to large industrial customers. The above net profit margins were partially offset by a loss of $2.1 million on gas marketing activities. Overall, margins earned during the year were $16 million less than the 2002 Business Plan mainly due to the sale of gas to the LDC's retail customers rather than on the open market as was anticipated in the Business Plan. As a result, the margins for these sales reduced the loss from commodity sales.

**2003 Outlook**

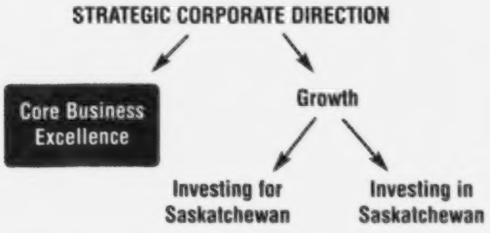
The sale of gas from non-operational storage fields is expected to earn additional margins in 2003 as these reserves have a low book value. The Business Plan anticipates opportunities to earn margins on supplying gas to industrial customers.

Gas marketing activities will be pursued when there are margins to be obtained through the purchase and sale of gas on the open market.

Storage gas sales will continue in 2003. However, due to a re-structuring within the subsidiaries, the sales will no longer occur in TransGas. Instead these sales will occur in another wholly owned subsidiary - Bayhurst Gas Limited.

# III. 2003 OUTLOOK

SaskEnergy is excited about the outlook for 2003 and beyond. Plans for the future are guided by the strategic corporate direction, which focuses energies on preserving and enhancing core business excellence and using this knowledge, experience and competency to seek out opportunities for growth. Through growth, SaskEnergy can overcome the challenges of operating in a mature market and realize opportunities to create greater value for the owner and contribute to the Saskatchewan economy. SaskEnergy understands the importance of growth, but also recognizes that it must concentrate on its core business competencies and skills as these will be the key enablers that afford the Corporation the opportunity to pursue growth. For this reason, SaskEnergy's future endeavours will always strive for a balance between the needs associated with pursuing growth and the needs associated with performing at high standards in core business areas.


STRATEGIC CORPORATE DIRECTION
Core Business Excellence
Growth
Investing for Saskatchewan
Investing in Saskatchewan

## Customer Service Excellence

In 2003, SaskEnergy will continue to seek out ways to deliver customer service excellence. Major initiatives planned for 2003 include changes to systems and processes to facilitate the response to customer line locate inquiries, greater focus on key accounts, convenient internet access to account information and the implementation of an online moving-notification application in co-operation with other organizations. The full implementation of these initiatives will improve the efficiency and effectiveness of SaskEnergy's customer services.

TransGas looks forward to realizing the full-year effect of the policy and process changes implemented in 2002. Through its "Customer Dialogue Process" and "Connection to Value" initiatives, TransGas fundamentally changed the way it provides service to its customers. Some of these changes include the provision of new internet-based tools and services for customers, changes to the rate structure associated with moving natural gas to storage, and the development of short-term service rates and policy changes with respect to the transfer of service rights.

## Safe and Reliable System

SaskEnergy is committed to providing safe and reliable service to its customers, and its employees, every day of the year. To meet this commitment, SaskEnergy will be seeking to implement technological improvements that will schedule maintenance, system operation activity and customer-specific activity, as well as more accurate recording and reporting equipment and time usage. This new system will help operational groups meet the commitment of ensuring a safe and reliable system.

For TransGas, 2003 will be the first year in the implementation of an extensive System Integrity Risk Management mandate, which will require capital expenditures of approximately $9 million. In addition, TransGas will be upgrading and enhancing the computerized pipeline operating system – Supervisory Control and Data Acquisition System (SCADA) – by the end of 2003 to ensure that operations continue reliably for years to come.

In 2002, SaskEnergy created Saskatchewan First Call Corporation in association with other pipeline companies. Saskatchewan First Call Corporation is a convenient underground facility location screening and notification service for residents, businesses and contractors who are planning to dig or excavate. This service will be convenient for customers and will help increase safety while reducing the cost of damages to underground pipelines.

## Stewardship

A core belief of SaskEnergy management is that every undertaking must be cost-effective and provide value to the customers served. SaskEnergy works hard to contain and minimize the costs incurred in providing service that allows customers to enjoy the lowest rates possible. TransGas did not change its rates for the three years from 2000 to 2002, and the Local Distribution Company has adjusted its delivery rates only twice over the last ten years. The ability to maintain these constant service rates was made possible through the vigilant efforts of both management and employees to control costs and devise innovative ways to deliver required services more efficiently. As part of the budgeting process, the Corporation has identified approximately $6.5 million in cost savings over the years 2001 to 2003. These efforts demonstrate a commitment to prudently manage operational costs for the benefit of the customers.

## Growth

### Investing in Saskatchewan

SaskEnergy plans to invest approximately $68 million in 2003 to support the growth and maintenance of its distribution and transmission pipeline systems. As SaskEnergy operates mature systems, its capital programs are largely comprised of requirements for infrastructure and system upgrades as well as for ensuring pipeline integrity.

Since SaskEnergy already serves over 90 per cent of Saskatchewan's communities, identifying viable growth opportunities is becoming increasingly difficult. As a result, SaskEnergy will continue to align its processes and policies to make them more inviting for economic development in Saskatchewan and to facilitate the increased usage of natural gas in emerging commercial opportunities.

A major focus for TransGas in 2003 will be to complete the infrastructure required to provide pipeline access into the Abbey/Shackelton/Lacadena area in western Saskatchewan. Also, expansion of natural gas storage services in Saskatchewan may have immediate capital requirements in the range of $12 - $18 million in 2003 with a total project cost of $35 million.

### Investing for Saskatchewan

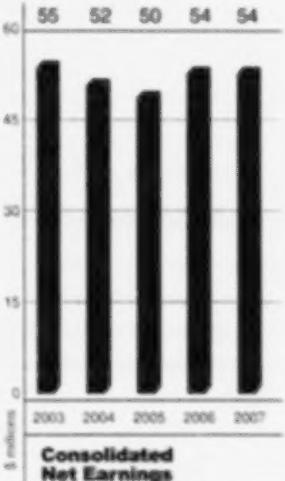
Given the high level of maturity of SaskEnergy's infrastructure investments in Saskatchewan, a natural path forward is that future growth be leveraged from core expertise. SaskEnergy has developed a strategy consistent with this rationale that resulted in two international investments: a natural gas distribution company in Chile and a natural gas lateral pipeline company in Mexico. In the coming year, SaskEnergy International will work closely with its investment partners in both Chile and Mexico to keep growing those investments. The outlook is very positive, with both investments forecast to produce positive net earnings in 2003.

In 2002, SaskEnergy announced that it was partnering with Scotia Investments Limited and AltaGas Services Inc. to form Heritage Gas Limited (Heritage Gas) to submit an application for the natural gas distribution franchise in the Province of Nova Scotia. On February 7, 2003, the Nova Scotia Utility and Review Board (NSUARB) awarded Heritage Gas the natural gas distribution franchise for a reduced geographic area. The Heritage Gas shareholders are analyzing the decision of the NSUARB before making a final decision to proceed.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 2003 Financial Forecast and Factors Affecting Performance

SaskEnergy's Business Plan forecasts net earnings from consolidated operations of $55 million in 2003[1]. This level of financial performance is sensitive to the status of the Gas Cost Variance Account and key sensitivities identified below:



**Consolidated Net Earnings 5 Year Forecast 2003 Business Plan**

The following sensitivities are intended to be illustrative of the relationship between the variables and financial performance and are not intended to reflect management's view as to the likelihood of this variability.

| Factor | Sensitivity | Impact on Net Earnings ($ millions) |
|---|---|---|
| 1. Winter Weather | One per cent change | 0.7 |

SaskEnergy's revenue forecasts are based on the assumption of normal winter weather. Normal is defined to be the average weather experienced over the last thirty years. Variations in winter weather of one per cent from this average will impact net earnings by approximately $0.7 million.

| Factor | Sensitivity | Impact on Net Earnings ($ millions) |
|---|---|---|
| 2. Natural Gas Prices | $0.10 change per gigajoule | 5.8 |

Fluctuations in the market price of natural gas will impact earnings in 2003. As SaskEnergy purchases approximately 58 million gigajoules annually, a 10 cent change in the gas purchase price of a gigajoule, without an accompanying change to SaskEnergy's commodity revenue rates, would impact net earnings by approximately $5.8 million.

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[1] The 2003 forecast net earnings exclude the effect of the GCVA.

| Factor | Sensitivity | Impact on Net Earnings ($ millions) |
|---|---|---|
| 3. TransGas contracted transportation levels | One per cent change to contracted levels | 0.1 |

TransGas revenue levels are sensitive to the level of capacity that is contracted by shippers for the transportation of their natural gas. A one per cent change to the contracted transportation levels will impact net earnings by approximately $0.1 million.

| Factor | Sensitivity | Impact on Net Earnings ($ millions) |
|---|---|---|
| 4. Short-Term Interest Rates | 0.25 per cent change | 0.3 |

A change to the short-term borrowing rates borrowing rates of 25 basis points would impact net earnings by approximately $0.3 million.

## IV. REGULATION

The Government of Saskatchewan established the Saskatchewan Rate Review Panel in July 2000 for a two-year term. In July 2002, Government announced the panel process would continue.

The Saskatchewan Rate Review Panel functions as a ministerial advisory committee to the Minister of Crown Investments Corporation of Saskatchewan (CIC). The panel's mandate is to conduct reviews of rate change requests from specific Crown corporations including SaskEnergy.

The panel provides an opinion to the Minister of CIC on the fairness and reasonableness of the proposed rate changes. It takes into consideration the interests of the customers, the applicant Crown corporation and the public. The Government of Saskatchewan makes the final decision on rate change requests.

# V. CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

## Crown Sector Strategic Plan

SaskEnergy is a Saskatchewan Crown corporation and, for governance purposes, is considered a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC, also a provincial Crown corporation, is the holding company for Saskatchewan's commercial Crown corporations.

CIC and its subsidiaries have developed a Crown Sector Strategic Plan to provide long-term direction to the Crown corporation sector, and facilitate long-term planning. The plan includes a guiding vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. SaskEnergy has developed its Corporate Strategic Direction to support CIC's five overall strategic objectives: Customer Service Excellence, Financial Health, Mandate and Role, Public Purpose, and Human Resources.

The following is CIC's strategic objective contained in the Crown Sector Strategic Plan with regard to Financial Health:

"Position the entire Crown sector to prosper. Provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector."

## Corporate Strategic Plan

SaskEnergy's Corporate Strategic Plan is directly aligned with CIC's Crown Sector Strategic Plan and overall strategic objectives.

The corporate strategic direction focuses on the core business excellence of the Local Distribution Company and TransGas Limited. Further success will result from building on these competencies and strengths which includes strategically investing in opportunities that grow the company both in and for Saskatchewan.

# CONSOLIDATED FINANCIAL STATEMENTS

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, that are applied on a consistent basis, and include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Corporation's Board of Directors (the Board) is responsible for overseeing the business and affairs of the Corporation. The Board, through its Audit and Finance Committee (the Committee), is responsible for ensuring that management fulfills its financial reporting responsibilities. The Committee is composed of independent directors who are not employees of the Corporation. The Committee reviews the Management's Discussion and Analysis included in this Annual Report and meets regularly with management, internal audit and the external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements and subsidiary financial statements.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal control systems ensure: that transactions are executed in accordance with proper authorization; that the financial information is relevant, reliable, and accurate; and that assets are appropriately accounted for and adequately safeguarded. The internal control system includes an internal audit function and an established code of conduct.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.

R.S. Clark

Ronald S. Clark
President
and Chief Executive Officer

Greg Mrazek
Vice-President, Finance &
Administration
and Chief Financial Officer

## AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2002 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Regina, Canada
February 4, 2003

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

| | Note | 2002 | 2001 |
|---|---|---|---|
| | | (thousands) | |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash | | $ 1,831 | $ - |
| Accounts receivable | | 119,507 | 145,711 |
| Natural gas in storage | 3 | 105,618 | 97,800 |
| Inventories of supplies | | 5,329 | 5,311 |
| Prepaid expenses | | - | 36,506 |
| | | 232,285 | 285,328 |
| PROPERTY, PLANT AND EQUIPMENT | 5 | 1,025,266 | 1,018,687 |
| INVESTMENTS AND OTHER ASSETS | 6 | 29,652 | 26,797 |
| NATURAL GAS IN STORAGE | 3 | 28,340 | 30,590 |
| TOTAL ASSETS | | $ 1,315,543 | $ 1,361,402 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | | |
| CURRENT LIABILITIES | | | |
| Bank indebtedness | | $ - | $ 678 |
| Short-term debt | 7 | 173,200 | 218,192 |
| Accounts payable | | 121,037 | 129,271 |
| Dividend payable | | 4,460 | - |
| Current portion of long-term debt | 7 | 4,040 | 4,040 |
| | | 302,737 | 352,181 |
| CUSTOMER CAPITAL CONTRIBUTIONS | 8 | 104,087 | 97,190 |
| LONG-TERM DEBT | 7 | 614,555 | 619,531 |
| TOTAL LIABILITIES | | 1,021,379 | 1,068,902 |
| PROVINCE OF SASKATCHEWAN'S EQUITY | | | |
| Equity advances | 9 | 71,531 | 71,531 |
| Retained earnings | 4 | 223,373 | 220,969 |
| Foreign currency translation adjustment | 6 | (740) | - |
| TOTAL EQUITY | | 294,164 | 292,500 |
| TOTAL LIABILITIES AND EQUITY | | $ 1,315,543 | $ 1,361,402 |
| COMMITMENTS AND CONTINGENCIES | 10 | | |

(See accompanying notes)

On behalf of the Board:

______________, Director ______________, Director

## CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

| | Note | 2002 | 2001 |
|---|---|---|---|
| | | (thousands) | |
| **REVENUE** | | | |
| Delivery revenue | | $ 166,870 | $ 155,118 |
| Transportation and storage revenue | | 68,588 | 69,663 |
| Net sales from gas marketing | 12 | 14,552 | 38,531 |
| Revenue collected for municipalities | 11 | 22,598 | 22,152 |
| Other | | 4,656 | 6,109 |
| Total revenue | | 277,264 | 291,573 |
| **EXPENSES** | | | |
| Operating and maintenance | | 111,798 | 109,592 |
| Interest | 7 | 52,136 | 53,316 |
| Amortization of property, plant and equipment | | 50,265 | 49,702 |
| Payments to municipalities | 11 | 22,598 | 22,152 |
| Saskatchewan taxes and royalties | 13 | 9,021 | 10,848 |
| Total expenses | | 245,818 | 245,610 |
| Net earnings from operations before the following | | 31,446 | 45,963 |
| Commodity revenue | | 377,276 | 310,507 |
| Cost of gas sold | 4 | 401,858 | 371,847 |
| Loss from commodity sales | | (24,582) | (61,340) |
| Net earnings (loss) | | 6,864 | (15,377) |
| Retained earnings, beginning of year | | 220,969 | 236,346 |
| Dividend | | (4,460) | |
| Retained earnings, end of year | | $ 223,373 | $ 220,969 |

(See accompanying notes)

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

| | Note | 2002 | 2001 |
|---|---|---|---|
| | | (thousands) | |
| **OPERATING ACTIVITIES** | | | |
| Net earnings (loss) | | $ 6,864 | $ (15,377) |
| Add (deduct) items not requiring an outlay of cash | | | |
| Amortization of property, plant and equipment | | 50,265 | 49,702 |
| Amortization of customer capital contributions | | (2,749) | (2,576) |
| Other non-cash items | | 1,674 | 921 |
| | | 56,054 | 32,670 |
| Net change in non-cash working capital related to operations | 14 | 46,640 | (87,796) |
| Cash provided by (used in) operating activities | | 102,694 | (55,126) |
| **INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment | | (56,844) | (57,913) |
| Additions to investments and other assets | | (5,269) | (12,385) |
| Customer capital contributions received | | 9,646 | 5,050 |
| Decrease in natural gas in storage (non-current) | | 2,250 | 1,659 |
| Cash used in investing activities | | (50,217) | (63,589) |
| **FINANCING ACTIVITIES** | | | |
| Increase (decrease) in short-term debt | | (44,992) | 218,192 |
| Repayment of long-term debt | | (4,976) | (233,921) |
| Proceeds from long-term debt | | - | 140,000 |
| Dividend paid | | - | (7,410) |
| Cash (used in) provided by financing activities | | (49,968) | 116,861 |
| **INCREASE (DECREASE) IN CASH** during year | | 2,509 | (1,854) |
| **CASH POSITION (BANK INDEBTEDNESS),** beginning of year | | (678) | 1,176 |
| **CASH POSITION (BANK INDEBTEDNESS),** end of year | | $ 1,831 | $ (678) |

Cash position consists of cash less bank indebtedness.

(See accompanying notes)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002

### 1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**. SaskEnergy's primary business is the transportation, distribution and storage of natural gas in Saskatchewan.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, 6019021 Canada Inc., Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. In addition, the accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership. Separate audited financial statements are prepared for each of these entities.

b. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method and the cost method respectively.

c. Foreign currency translation adjustment

The Corporation's foreign investment in Chile is self-sustaining. The financial statements of the foreign investment are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

d. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

e. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

| | |
|---|---|
| Transmission and storage | 2.5 to 2.6 |
| Distribution | 2.5 to 3.5 |
| Gathering, treatment and compression | 2.5 to 3.5 |
| Vehicles, equipment and other | 2.5 to 50.0 |

The royalty interest in certain natural gas wells is amortized on the unit of production method.

f. Natural gas in storage

Natural gas in storage (both current and non-current) is stated at cost. Natural gas removed from storage is accounted for on an average cost basis.

g. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates. Amounts over-recovered or under-recovered during the year are reported as a gain or loss from commodity sales.

Where the cost of gas sold exceeds commodity sales revenue, the Government of Saskatchewan may, at its discretion, elect to not increase SaskEnergy's rates to recover the shortfall.

h. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

i. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and natural gas costs. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business. During 2002, the Corporation used derivative financial instruments to hedge natural gas prices, foreign currency exchange rates and interest rates.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

  The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. From time to time, the Corporation may sell options to generate premium revenue which is used to offset the cost to purchase natural gas.

- Foreign currency exchange and interest rate risk management

  The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

j. Employees' future benefits

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the average remaining service period of active employees.

k. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

l. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

m. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

Transportation and storage revenue is recognized when transportation, transportation related services and storage are provided to customers. An estimate of transportation, storage revenue and related services rendered, but not billed, is included in revenue.

Revenue for consulting services is earned as services are performed.

n. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

## 3. NATURAL GAS IN STORAGE

a. Natural gas in storage classified as a current asset has been purchased for the purpose of resale.

b. Natural gas in storage classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operations of the storage facilities.

c. Certain natural gas in storage sold in 2002 and 2001 was purchased for nil consideration from an affiliate in 1988. This consideration was equal to the affiliate's net book value at that time.

## 4. GAS COST VARIANCE ACCOUNT

The GCVA, as at December 31, includes natural gas costs to be refunded to or recovered from customers as follows:

| | 2002 | 2001 |
|---|---|---|
| | (thousands) | |
| Commodity sales revenue within Saskatchewan | $ 377,281 | $ 310,435 |
| Less: | | |
| Cost of gas | 418,038 | 375,718 |
| Interest expense on the GCVA balance | 439 | 1,044 |
| Loss from commodity sales | 41,196 | 66,327 |
| Refunded to customers during the year | (9,519) | - |
| Under-recovery | - | (75,846) |
| Balance, end of year to be collected from or (refunded to) customers | $ 31,677 | $ (9,519) |

The loss from commodity sales of $41,196 thousand ($66,327 thousand in 2001) is included in the December 31, 2002 retained earnings balance of $223,373 thousand ($220,969 thousand in 2001).

At May 31, 2001, the cost of gas sold exceeded commodity sales revenue by $75,846 thousand. Effective May 31, 2001, the Government of Saskatchewan directed SaskEnergy not to increase its commodity rates to recover the shortfall. As a result, SaskEnergy did not recover these commodity gas costs from customers.

As at December 31, 2002, the GCVA had an accumulated balance of $31,677 thousand as commodity gas costs had again exceeded commodity revenue. As of December 31, 2002, a decision had not been made as to whether future rates would be increased to recover this shortfall.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | (thousands) | | | | | |
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Transmission and storage | $ 573,181 | $ 147,833 | $ 425,348 | $ 555,823 | $ 132,576 | $ 423,247 |
| Distribution | 566,118 | 141,704 | 424,414 | 545,662 | 126,205 | 419,457 |
| Gathering, treatment and compression | 157,780 | 55,262 | 102,518 | 154,630 | 49,323 | 105,307 |
| Vehicles, equipment and other | 134,621 | 67,578 | 67,043 | 122,392 | 56,535 | 65,857 |
| Royalty interest | 6,509 | 6,509 | - | 6,831 | 6,805 | 26 |
| Construction in progress | 5,943 | - | 5,943 | 4,793 | - | 4,793 |
| | $ 1,444,152 | $ 418,886 | $ 1,025,266 | $ 1,390,131 | $ 371,444 | $ 1,018,687 |

The composite amortization rate was 3.55 per cent during 2002 (3.64 per cent during 2001).

## 6. INVESTMENTS AND OTHER ASSETS

Investments and other assets are as follows:

| | | 2002 | 2001 |
|---|---|---|---|
| | | (thousands) | |
| a. Investments | Per cent Ownership | | |
| i. Gas Sur S.A. | 30 | $ 11,986 | $ 12,740 |
| ii. Igasamex USA Ltd. | 12.4 | 3,846 | 92 |
| | | 15,832 | 12,832 |
| b. Deferred costs | | 1,515 | - |
| c. Deferred charges | | | |
| Unamortized deferred financing costs | | 7,850 | 8,874 |
| Unamortized past service costs | | 4,455 | 5,091 |
| | | 12,305 | 13,965 |
| Total investments and other assets: | | $ 29,652 | $ 26,797 |

a. Investments:

i. Gas Sur S.A.

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent. The total amount invested was $12,740 thousand as at December 31, 2002 (2001 - $12,740 thousand).

The Corporation's share of the foreign currency translation adjustment resulted in a $740 thousand reduction in the balance of the investment in Gas Sur S.A. The Corporation's 30 per cent share of Gas Sur S.A.'s 2002 loss was $14 thousand.

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand and is not being amortized.

ii. Igasamex USA Ltd.

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in the United States. The equity interest is held through general partnership and limited partnership units. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

The Corporation paid $3,846 thousand for its equity interest in Igasamex USA Ltd.

The Order-in-Council limits the investment in Igasamex USA Ltd. to a maximum of $12,000 thousand United States Dollars (USD).

b. Deferred costs

The Corporation owns 50.1 per cent of Heritage Gas Limited (Heritage Gas). During 2002, Heritage Gas filed a formal application with the Nova Scotia Utility and Review Board (NSUARB) in order to obtain the natural gas distribution franchise for a specific area of Nova Scotia.

The Corporation has capitalized $1,515 thousand of costs related to the Heritage Gas franchise application as deferred costs.

The decision of the NSUARB to award the natural gas distribution franchise was pending as at December 31, 2002. A decision is expected in 2003. Should the NSUARB not grant the franchise to Heritage Gas or should the Heritage Gas shareholders agree not to proceed, the deferred costs noted above will be expensed in 2003. If the shareholders agree to proceed, the deferred costs will be transferred to Heritage Gas as an asset in 2003.

## 7. LONG-TERM DEBT

| Years to Maturity | 2002<br>Principal Outstanding (thousands) | 2002<br>Average Fixed Interest Rate (per cent) | 2001<br>Principal Outstanding (thousands) | 2001<br>Average Fixed Interest Rate (per cent) |
|---|---|---|---|---|
| Province of Saskatchewan | | | | |
| 1 - 5 | $ 245,954 | 8.6 | $ 198,249 | 8.8 |
| 6 - 10 | 194,261 | 7.5 | 241,966 | 7.5 |
| 16 - 30 | 193,971 | 7.3 | 193,971 | 7.3 |
| | 634,186 | | 634,186 | |
| Less sinking fund equity | (20,407) | | (15,431) | |
| Less due within one year | (4,040) | | (4,040) | |
| Due to Province of Saskatchewan | 609,739 | | 614,715 | |
| Other | 4,816 | 13.5 | 4,816 | 13.5 |
| Total long-term debt | $ 614,555 | | $ 619,531 | |

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.36 per cent for 2002 (6.19 per cent for 2001).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Short-term debt

During 2002, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 4.0 per cent.

Short-term debt at December 31, 2002 consists of $173,200 thousand (2001 - $218,192 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.7 per cent (2001 - 2.0 per cent).

d. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows:

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| | | | (thousands) | | |
| Principal | $ - | $ 30,457 | $ 101,195 | $ 66,597 | $ 47,705 |
| Sinking fund instalments | 4,040 | 4,040 | 4,040 | 3,290 | 3,290 |
| Total | $ 4,040 | $ 34,497 | $ 105,235 | $ 69,887 | $ 50,995 |

e. Interest expense

Interest expense was as follows:

| | 2002 | 2001 |
|---|---|---|
| | (thousands) | |
| Interest on long-term debt | $ 50,597 | $ 54,234 |
| Interest expense on short-term debt | 5,041 | 7,693 |
| Interest on cost of gas sold | (2,387) | (5,002) |
| Sinking fund earnings | (937) | (3,307) |
| Interest capitalized | (178) | (271) |
| Interest income | - | (31) |
| | $ 52,136 | $ 53,316 |

Cash interest paid during 2002 on long-term debt was $50,466 thousand (2001 - $60,816 thousand).

## 8. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

| | 2002 | 2001 |
|---|---|---|
| | (thousands) | |
| Balance, beginning of year | $ 97,190 | $ 94,716 |
| Contributions received | 9,646 | 5,050 |
| Contributions amortized | (2,749) | (2,576) |
| Balance, end of year | $ 104,087 | $ 97,190 |

## 9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from Crown Investments Corporation of Saskatchewan (CIC) to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

## 10. COMMITMENTS

### FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | | (thousands) | | |
| Long-term debt | $ 639,002 | $ 741,938 | $ 639,002 | $ 727,009 |
| Sinking fund equity | 20,407 | 21,299 | 15,431 | 15,386 |
| Natural gas price hedges owed to (by) SaskEnergy: | | | | |
| - swaps | - | (12,498) | 393 | (35,669) |
| - options | - | - | 36,506 | (44,711) |
| Foreign currency exchange hedges owed to (by) SaskEnergy | - | - | (238) | 1,943 |
| Interest rate hedges owed to (by) SaskEnergy: | | | | |
| - forward rate agreements | - | (129) | - | (182) |

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps - The relevant index price in effect as at year end.

iv. Natural gas price options - The relevant index price in effect as at year end.

v. Foreign exchange - The Bank of Canada exchange rate as at year end.

vi. Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividends payable and short-term debt) approximate fair value.

b. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

c. Forward sale agreements

The Corporation has entered into forward sale agreements to deliver 12.9 petajoules of natural gas during 2003 and 2004 for a total of $44,262 thousand. The Corporation has entered into natural gas price swaps with counterparties, to fix the selling price for 11.8 petajoules of the 12.9 petajoules committed for sale during 2003 and 2004.

d. Guarantees

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States Dollars (USD).

e. Letters of credit

i. The Corporation has posted a $913 thousand USD letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly-owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V. Bank One, N.A. may draw upon this letter of credit if Igasamex defaults under the terms of its loan agreement with Bank One, N.A.

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the exchange. All participants in the exchange are required to post security.

## LEASES

The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The annual base lease payments are as follows: (thousands)

| 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter | Total |
|---|---|---|---|---|---|---|
| $ 371 | $ 380 | $ 389 | $ 399 | $ 409 | $ 1,509 | $ 3,457 |

## 11. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

a. Natural gas distribution

In accordance with regulations under **The SaskEnergy Act**, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings and retained earnings. In 2002, revenue collected and paid to municipalities was $18,637 thousand (2001 – $16,336 thousand).

b. Natural gas transmission

In accordance with regulations under **The SaskEnergy Act**, TransGas Limited (TransGas) is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities. In 2002, revenue collected and paid to municipalities was $3,961 thousand (2001 - $5,816 thousand).

## 12. NET SALES FROM GAS MARKETING

Net sales from gas marketing include the following:

| | 2002 | 2001 |
|---|---|---|
| | (thousands) | |
| Competitive gas sales | $ 331,103 | $ 497,838 |
| Cost of gas | 316,551 | 459,307 |
| Margin | $ 14,552 | $ 38,531 |

## 13. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalties include the following:

| | 2002 | 2001 |
|---|---|---|
| | (thousands) | |
| Corporate capital tax | $ 6,080 | $ 5,154 |
| Royalties | 1,926 | 4,700 |
| Mitigation payments and property taxes | 1,015 | 994 |
| | $ 9,021 | $ 10,848 |

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

## 14. NET CHANGE IN NON-CASH WORKING CAPITAL

| | 2002 | 2001 |
|---|---|---|
| | (thousands) | |
| Prepaid expenses | $ 36,506 | $ (36,506) |
| Accounts receivable | 26,204 | 6,207 |
| Accounts payable | (8,234) | (22,942) |
| Natural gas in storage - current | (7,818) | (60,369) |
| Inventories of supplies | (18) | (254) |
| Gas cost variance account | - | 26,068 |
| | $ 46,640 | $ (87,796) |

## 15. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (thousands) | |
| Revenue | $ 31,378 | $ 27,166 |
| Operating expenses | 23,680 | 25,791 |
| Customer capital contributions | 2,567 | 2,650 |
| Accounts receivable | 2,346 | 914 |
| Accounts payable | 651 | 979 |

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan's Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

## 16. PENSION PLANS

Substantially all employees of the corporations included in these consolidated financial statements are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. During the year, the corporation contributed $2,705 thousand (2001 - $2,525 thousand) on behalf of employees for current services.

## 17. SEGMENTED INFORMATION

SaskEnergy operates predominantly in the following two industry segments:

**Distribution** (Distribution Division of SaskEnergy) provides natural gas distribution services to the Province of Saskatchewan.

**Transportation** (TransGas Limited) operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. This company also provides natural gas storage services.

### A) Statement of Earnings (millions of dollars)

| | Distribution | | Transportation | | Other | | Intercompany | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| **REVENUE** | | | | | | | | | | |
| Delivery revenue | **169.9** | 158.1 | **-** | - | **0.6** | 0.5 | **(3.6)** | (3.5) | **166.9** | 155.1 |
| Transportation and storage | **-** | - | **124.2** | 126.0 | **3.6** | 3.6 | **(59.2)** | (59.9) | **68.6** | 69.7 |
| Net sales from gas marketing | **-** | - | **28.3** | 35.0 | **-** | - | **(13.8)** | 3.5 | **14.5** | 38.5 |
| Revenue collected for municipalities | **18.6** | 16.3 | **4.0** | 5.8 | **-** | - | **-** | - | **22.6** | 22.1 |
| Other | **(0.4)** | 4.3 | **-** | - | **4.7** | 6.2 | **0.4** | (4.4) | **4.7** | 6.1 |
| Revenue | **188.1** | 178.7 | **156.5** | 166.8 | **8.9** | 10.3 | **(76.2)** | (64.3) | **277.3** | 291.5 |
| **EXPENSES** | | | | | | | | | | |
| Operating and maintenance | **118.2** | 116.8 | **51.2** | 49.8 | **2.4** | 2.3 | **(60.0)** | (59.3) | **111.8** | 109.6 |
| Interest | **18.9** | 17.7 | **28.8** | 29.6 | **1.0** | 1.3 | **3.4** | 4.6 | **52.1** | 53.2 |
| Amortization of capital assets | **24.6** | 23.6 | **24.9** | 24.6 | **0.8** | 1.6 | **-** | - | **50.3** | 49.8 |
| Payments to municipalities | **18.6** | 16.3 | **4.0** | 5.8 | **-** | - | **-** | - | **22.6** | 22.1 |
| Saskatchewan taxes and royalties | **4.0** | 3.0 | **4.3** | 7.2 | **0.7** | 0.6 | **-** | - | **9.0** | 10.8 |
| Expenses | **184.3** | 177.4 | **113.2** | 117.0 | **4.9** | 5.8 | **(56.6)** | (54.7) | **245.8** | 245.5 |
| Net earnings from operations before the following | **3.8** | 1.3 | **43.3** | 49.8 | **4.0** | 4.5 | **(19.6)** | (9.6) | **31.5** | 46.0 |
| Commodity revenue | **377.3** | 310.4 | **-** | - | **0.3** | 0.1 | **(0.3)** | - | **377.3** | 310.5 |
| Cost of gas sold | **418.5** | 376.7 | **-** | - | **0.3** | 0.1 | **(16.9)** | (4.9) | **401.9** | 371.9 |
| Net revenue (loss) from commodity sales | **(41.2)** | (66.3) | **-** | - | **-** | - | **16.6** | 4.9 | **(24.6)** | (61.4) |
| Net earnings (loss) | **(37.4)** | (65.0) | **43.3** | 49.8 | **4.0** | 4.5 | **(3.0)** | (4.7) | **6.9** | (15.4) |

### B) Statement of Financial Position (millions of dollars)

| | Distribution | | Transportation | | Other[1] | | Intercompany[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| Current assets | **233.4** | 280.5 | **54.6** | 58.5 | **5.4** | 5.2 | **(61.1)** | (58.9) | **232.3** | 285.3 |
| Property, plant & equipment, & natural gas in storage | **467.2** | 461.4 | **563.4** | 563.4 | **26.1** | 26.5 | **(3.1)** | (2.0) | **1,053.6** | 1,049.3 |
| Investments & other assets | **7.8** | 8.5 | **5.2** | 5.9 | **15.8** | 12.9 | **0.8** | (0.5) | **29.6** | 26.8 |
| Total assets | **708.4** | 750.4 | **623.2** | 627.8 | **47.3** | 44.6 | **(63.4)** | (61.4) | **1,315.5** | 1,361.4 |
| Current liabilities | **182.6** | 218.4 | **61.7** | 67.9 | **10.2** | 9.2 | **48.2** | 56.6 | **302.7** | 352.1 |
| Customer capital contributions | **67.0** | 64.9 | **34.2** | 29.6 | **5.9** | 5.9 | **(3.0)** | (3.2) | **104.1** | 97.2 |
| Long-term debt | **266.1** | 268.0 | **335.1** | 338.1 | **13.6** | 13.7 | **(0.3)** | (0.2) | **614.5** | 619.6 |
| Total liabilities | **515.7** | 551.3 | **431.0** | 435.6 | **29.7** | 28.8 | **44.9** | 53.2 | **1,021.3** | 1,068.9 |
| Total equity | **192.7** | 199.1 | **192.2** | 192.2 | **17.6** | 15.8 | **(108.3)** | (114.6) | **294.2** | 292.5 |
| Total liabilities and equity | **708.4** | 750.4 | **623.2** | 627.8 | **47.3** | 44.6 | **(63.4)** | (61.4) | **1,315.5** | 1,361.4 |

[1] The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated and Swan Valley Gas Corporation.

[2] The Intercompany category includes general corporate assets, liabilities, revenues and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were to third parties, that is, at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

## 18. SASKATCHEWAN RATE REVIEW PANEL

During 2000, the Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public. SaskEnergy did not apply for either a commodity or delivery charge rate increase or decrease in 2002.

## 19. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

# CORPORATE GOVERNANCE

## A. *Authority*

SaskEnergy is a statutory Crown corporation which is governed by *The SaskEnergy Act* and *The SaskEnergy Regulations*. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister Responsible for SaskEnergy, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislature.

## B. *Board Responsibilities*

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to *The SaskEnergy Act*.

## C. *Board Composition*

SaskEnergy's Board of Directors is representative of Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints Board members. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgment and initiative. Board members are committed to serving the Corporation, and in so doing, serving Saskatchewan people through emphasis on client service, productivity, profitability, co-operation and sound environmental stewardship.

## D. *Committees*

The Board established the following four committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Governance Committee
- Human Resources/Compensation Committee
- Safety, Health and Environment Committee

### • Audit and Finance Committee

*Chair: Mervyn Simon*

The Audit and Finance Committee mandate is to assist the Board of Directors in meeting their responsibilities with respect to financial reporting, internal control and accountability. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan and public policy objectives.

- **Governance Committee**

  *Chair: Tim Gitzel*

The Governance Committee is responsible for the development and maintenance of SaskEnergy's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and establishing appropriate Board and Board committee structure, composition and mandate.

- **Human Resources/Compensation Committee**

  *Chair: Michael Chorlton*

The Human Resources/Compensation Committee mandate is to oversee SaskEnergy's human resource strategies, programs and practices to ensure that SaskEnergy is a corporate leader in the development and implementation of proactive human resource strategies.

- **Safety, Health and Environment Committee**

  *Chair: George E. Lafond*

The Safety, Health and Environment Committee mandate is to ensure the Corporation is proactively addressing safety, health and environmental issues and is in compliance with all statutory requirements.

## *E. Governance Practices*

SaskEnergy's approach to corporate governance practices is substantially consistent with the guidelines set forth in the *Canadian Institute of Chartered Accountants (CICA) Handbook* (sections entitled *Guidance for Directors* and *Governance Processes for Control*). These guidelines, which were adopted by the Board of Governors of the Toronto Stock Exchange (TSX), address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskEnergy's corporate governance practices are benchmarked against the Toronto Stock Exchange Guidelines in the following Governance Scorecard.

# CORPORATE GOVERNANCE

| TSX Corporate Governance Committee's Guidelines (as amended by the TSX in 2002) | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| 1. The board should explicitly assume responsibility for the stewardship of the corporation, specifically for: | | |
| (a) Adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business: | The Board of Directors has a formal mandate with responsibility to function as stewards of the Corporation.<br>One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the Board of the Corporation's strategic plan, annual operating and capital budget and financial plan.<br>In addition, the Board conducts an annual two-day comprehensive strategy session with Senior Management, at which the Board reviews and assesses the performance of the Corporation and its subsidiaries, reviews business plans, reviews the opportunities and risks of the Corporation's business, reviews short-term and long-term objectives for the Corporation, including discussing and approving strategies to meet these objectives. | Yes |
| (b) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks: | The Board identifies the principal risks of the Corporation on an annual basis and monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. | Yes |
| (c) Succession planning, including appointing, training and monitoring senior management: | The Human Resources/Compensation Committee of the Board annually reviews the adequacy of the Corporation's succession planning strategy, performance targets, and the performance evaluations of the Executive Officers of the Corporation, including the Executive training plan. | Yes |
| (d) A communications policy for the corporation: | Although there is no formal written policy, SaskEnergy is committed to the principles of transparency, openness and timeliness in communications with its shareholder, employees, stakeholders and the public. | Yes |
| (e) The integrity of the corporation's internal control and management information systems: | The Audit and Finance Committee is responsible for the financial reporting, internal control and accountability of the Corporation. This Committee reviews the integrity of the internal controls and financial management information systems in conjunction with the internal and external auditors. | Yes |

| TSX Corporate Governance Committee's Guidelines (as amended by the TSX in 2002) | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| 2. (a) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors: | There are ten individuals on the SaskEnergy Board of Directors. Ronald S. Clark, President and CEO, Tom Ryberg (January 01 to April 15, 2002), Assistant to the President of CEP Union, Local 649, and Jean Weimer (effective August 13, 2002), Assistant to the President of CEP Union, Local 649, are the only related Board members. | Yes |
| (b) Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors): | SaskEnergy is a statutory Crown corporation and does not have any share capital. | Not applicable |
| 3. The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director: | Susan Milburn, Chair: UNRELATED<br>- Vice President and Associate Portfolio Manager of Raymond James Ltd.<br>(resigned from the Board effective October 31, 2002)<br><br>Tim Gitzel: UNRELATED<br>- President and CEO of COGEMA Resources<br><br>Geoffrey W. Bartlam: UNRELATED<br>- Independent Business Person<br><br>Michael W. Chorlton: UNRELATED<br>- Vice President, Renessen LLC, Chicago, Illinois<br><br>Ronald S. Clark: RELATED<br>- President and Chief Executive Officer of SaskEnergy<br><br>Ralph Hesje: UNRELATED<br>- Independent Industry Business Person<br><br>George E. Lafond: UNRELATED<br>- Tribal Chief, Saskatoon Tribal Council<br><br>Emmet Reidy: UNRELATED<br>- Independent Business Person<br><br>Mervyn J. Simon: UNRELATED<br>- Independent Industry Business Person<br><br>Tom Ryberg: RELATED<br>- Assistant to the President of CEP Union, Local 649<br>(company employee on leave for Union business)<br>(resigned from Board April 15, 2002)<br><br>Jean Weimer: RELATED<br>- Assistant to the President of CEP Union, Local 649<br>(company employee on leave for Union business) | Yes |

| TSX Corporate Governance Committee's Guidelines (as amended by the TSX in 2002) | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| | For the unrelated directors, none of them, or their "associates," has worked with or for the Corporation by material contracts or has received remuneration from the Corporation in excess of fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation. | |
| 4. The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis: | The Governance Committee has responsibility to make recommendations to the Board on the size, composition and required qualifications of the Board of Directors.<br>All of the Governance Committee members are outside, unrelated directors. | Yes |
| 5. Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors: | The Governance Committee is responsible for implementation of performance evaluations of the Board of Directors, each Committee, the Chair and individual Directors. The process is conducted by an outside third-party consultant. The results are summarized and reported to the Board of Directors, as well as the Crown Investments Corporation of Saskatchewan Board of Directors. | Yes |
| 6. Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board: | The SaskEnergy Board has approved a Board of Directors Training Policy which outlines the Corporation's commitment to the orientation and training of its incoming Board members and the ongoing training and industry education for current Board members. This policy outlines the comprehensive orientation material to be provided to incoming Board members. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan and the Corporation have each facilitated additional training sessions for Board members in 2002. | Yes |
| 7. Every board of directors should examine its size and undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making: | SaskEnergy's present Board size of ten members brings the necessary skills and experience to Board decision making to form an effective decision-making body. SaskEnergy's Governance Committee is responsible for annually assessing the size, composition and required qualifications of the Board to determine whether it has all the necessary constituents for effective decision making. | Yes |

| **TSX Corporate Governance Committee's Guidelines (as amended by the TSX in 2002)** | **SaskEnergy's Corporate Governance Practices** | **Consistent with TSX Guidelines?** |
|---|---|---|
| 8. The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being a director: | The Human Resources/Compensation Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation of Saskatchewan for approval any proposed adjustments to compensation levels. Crown Investments Corporation of Saskatchewan is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors. | Yes |
| 9. (a) Subject to guideline 13, committees should be generally composed of outside directors: | Committees are comprised solely of non-management members, except the Human Resources/Compensation Committee and the Safety, Health and Environment Committee, where Jean Weimer, a unionized employee on leave from the Corporation, is a member. From January 01 to April 15, 2002, Tom Ryberg, a unionized employee on leave from the Corporation, was a member of that Committee. | Yes |
| (b) The majority of committee members should be unrelated: | The majority of Committee members are unrelated. | Yes |
| 10. Every board of directors should expressly assume responsibility for or assign to a committee of directors the general responsibility for developing the corporation's approach to governance issues. This committee would, among other things, be responsible for the corporation's response to these governance guidelines: | The Governance Committee is mandated to be responsible to the Board for governance of SaskEnergy, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee has reviewed and approved this report. | Yes |
| 11. (a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, including the definition of the limits to management's responsibilities: | The Board of Directors has developed the Board's Terms of Reference which outline the responsibilities for the Board and Management. The Board of Directors has approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies outline the limits to Senior Management's authorities and the levels for which matters must receive Board of Directors approval. | Yes |
| (b) The board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives: | The Human Resources/Compensation Committee annually reviews with the CEO the performance targets and performance evaluation of the CEO and the Executive Officers. The CEO's performance is assessed against the Corporation's annual objectives. The results of the CEO's performance are reported to the full Board. | Yes |

# CORPORATE GOVERNANCE

| **TSX Corporate Governance Committee's Guidelines (as amended by the TSX in 2002)** | **SaskEnergy's Corporate Governance Practices** | **Consistent with TSX Guidelines?** |
|---|---|---|
| 12. Every board of directors should implement structures and procedures which ensure that the board can function independently of management: | The Board structure at SaskEnergy is such that the Chair of the Board is unrelated. The Board meeting procedures are such that at each meeting the Board conducts an in-camera session whereby Management, including the President and CEO who is a Board member, are excused from the meeting. | Yes |
| 13. The audit committee of every board of directors should be composed only of unrelated directors. All the members of the audit committee should be financially literate and at least one member should have accounting or related financial expertise. Each Board shall determine the definition of and criteria for "financial literacy" and "accounting or related financial expertise." The Board should adopt a charter for the audit committee which specifically defines the roles and responsibilities of the audit committee so as to provide appropriate guidance to audit committee members regarding their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control: | All members of the SaskEnergy Audit and Finance Committee are unrelated Directors. These committee members are financially literate, and at least one member of the committee has related financial expertise.<br>SaskEnergy's Audit and Finance Committee's Terms of Reference state that the Committee has a mandate to:<br>• Review with Management and external auditor, and recommend to the Board for approval, the Annual Audited Financial Statements of the Corporation and its wholly owned subsidiaries.<br>• Review and recommend for approval of the Board the Management's Discussion and Analysis section of the Annual Report, as well as any other disclosure documents containing financial statements of the Corporation.<br>• Review the semi-annual financial statements.<br>• Review annually the results of the external auditor's review of the Corporation's financial record.<br>• Review the results of the reports of the internal and external auditor with respect to the state of the Corporation's internal control systems.<br>• Review the quality of service and the performance of the external auditor and recommend the appointment or reappointment of an external auditor.<br>• Review and approve the plans of the Corporation's internal auditor.<br>• Review financial forecasts and changes to the annual depreciation rates, major investments or divestitures and the insurable risks and insurance coverage of the Corporation.<br>• Review annually the efficacy of the Corporation's policies relating to execution of documents, derivatives, and expenditures.<br>• Review annually the objectives, goals and basic principles in use of financial derivatives to manage interest rates, gas price and foreign currency risk.<br>• Review quarterly the performance and execution of the gas price hedging strategy, corporate debt strategy and foreign exchange hedging strategy as contained in the Corporate Derivatives Policy.<br>• Review annually the borrowing and new venture financing of the Corporation. | Yes |

| TSX Corporate Governance Committee's Guidelines (as amended by the TSX in 2002) | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| 14. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of an appropriate committee of the board: | The Board or any Committee of the Board may obtain the advice and counsel of external advisors if, in the opinion of the Board or Committee, it is necessary in order to properly discharge their function, duties and responsibilities that such advisor be engaged. | Yes |

# GLOSSARY

## NATURAL GAS MEASUREMENTS

**Joule (J)** – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by one quarter of one degree Celsius.

**Gigajoule (GJ)** – a measure of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. An average home uses about 130 GJ per year.

**Terajoule (TJ)** – a unit of energy equivalent to 100,000 GJ.

**Petajoule (PJ)** – a unit of energy equivalent to 1,000,000 GJ.

**Cubic metre ($m^3$)** – a unit of measurement commonly used to express the amount of natural gas sold to consumers. The average home uses about 3,550 $m^3$ of gas per year.

## FINANCIAL TERMS

**CICA** – the Canadian Institute of Chartered Accountants.

**Core Earnings** – earnings generated from the operation of SaskEnergy's two major business units, the Local Distribution Company (LDC) and TransGas Limited (TransGas). The LDC's core operation is natural gas distribution, and TransGas' core operations are natural gas transmission and storage.

**GAAP** – Generally Accepted Accounting Principles. Accountants prepare financial statements in accordance with GAAP. In Canada, the recommendations of the Canadian Institute of Chartered Accountants (CICA), as found in the CICA Handbook, formally represent Canadian GAAP. The Accounting Standards Board develops the CICA Handbook's content regarding financial accounting. The structure of this board and its operating procedures permit the exercise of due process when formulating recommendations. This process constitutes the formal process that generates Canadian GAAP.

## BOARD OF DIRECTORS

Back row l. to r.:
Emmet Reidy, Ralph Hesje, Ron Clark, Geoffrey Bartlam

Front row l. to r.:
Mervyn Simon, Mike Chorlton, Tim Gitzel, Jean Weimer

Missing from photo: Susan Milburn, George E. Lafond

## EXECUTIVE COMMITTEE

Ronald S. Clark, President and Chief Executive Officer
George Barnhart, Vice President, Strategic Development
  (Retired effective September 1, 2002)
Larry Braun, President, Communications,
  Energy & Paperworkers (CEP) Union, Local 649
David Easton, President, SaskEnergy International
Ken From, Senior Vice President, Gas Supply
Mark Guillet, Vice President, General Counsel & Corporate Secretary
Robert Haynes, Vice President, Human Resources
Colleen Huber, Vice President, Information Systems
Doug Kelln, Senior Vice President, Distribution Utility
Greg Mrazek, Vice President, Finance & Administration and Chief Financial Officer
Ron Podbielski, Executive Director, Corporate Affairs
Daryl Posehn, Vice President, TransGas
Dean Reeve, Executive Vice President, Business Development & Market Services

# FIVE-YEAR OPERATING SUMMARY

## Five-Year Operating Summary – Distribution

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| Sales in million cubic Metres ($10^6 m^3$)[1] | 4,286 | 4,312 | 3,050 | 2,899 | 3,291 |
| Residential annual Average usage | 3,478 | 3,173 | 3,497 | 3,316 | 3,255 |
| Degree days[2] | 5,982 | 5,390 | 5,864 | 5,345 | 5,338 |
| Customers at year end[3] | 323,721 | 321,612 | 320,340 | 317,219 | 313,625 |
| Pipelines – in kilometres (km) | 65,441 | 65,191 | 64,814 | 64,169 | 63,063 |

[1] Retail and gas marketing.

[2] A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,746.)

[3] Number of active services.

## Five-Year Operating Summary – Transmission

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **PIPELINES (km)** | | | | | |
| TransGas | | | | | |
| Transmission | 13,216 | 13,097 | 13,067 | 13,033 | 12,935 |
| Gathering | 289 | 286 | 286 | 286 | 286 |
| Many Islands Pipe Lines (Canada) Limited | 435 | 454 | 434 | 414 | 414 |
| Swan Valley Gas Corporation | 50 | 50 | 50 | 0 | 0 |
| | 13,990 | 13,887 | 13,837 | 13,733 | 13,635 |
| **COMPRESSOR STATIONS** | | | | | |
| TransGas | 22 | 22 | 22 | 22 | 22 |
| Many Islands Pipe Lines (Canada) Limited | 1 | 1 | 1 | 1 | 1 |
| | 23 | 23 | 23 | 23 | 23 |
| **COMPRESSION HORSEPOWER** | | | | | |
| TransGas | 100,620 | 100,620 | 100,375 | 100,375 | 100,375 |
| Many Islands Pipe Lines (Canada) Limited | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| | 104,620 | 104,620 | 104,375 | 104,375 | 104,375 |
| Peak Day Gas flows (Winter Season) (Petajoules) | 1.30 | 1.30 | 1.36 | 1.28 | 1.37 |
| Date of Peak Day flow | Jan. 28 | Feb. 26 | Dec. 11 | Dec. 19 | Jan. 12 |
| Storage Cavern Sites | 7 | 7 | 7 | 7 | 7 |
| Storage Caverns | 23 | 23 | 24 | 24 | 24 |
| Storage Field Sites | 3 | 3 | 3 | 3 | 3 |

# FOUR-YEAR FINANCIAL SUMMARY

| **Entity:** | **Distribution** | | | | **Transportation** | | | |
|---|---|---|---|---|---|---|---|---|
| *millions of dollars* | 2002 | 2001 | 2000 | 1999 | 2002 | 2001 | 2000 | 1999 |
| **A. Statement of Earnings** | | | | | | | | |
| Delivery revenue | 169.9 | 158.1 | 170.5 | 171.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transportation and storage | 0.0 | 0.0 | 0.0 | 0.0 | 124.2 | 126.0 | 133.4 | 140.1 |
| Net sales from gas marketing | 0.0 | 0.0 | 0.0 | 0.0 | 28.3 | 35.0 | 15.4 | 7.3 |
| Revenue collected from municipalities | 18.6 | 16.3 | 13.3 | 0.0 | 4.0 | 5.8 | 4.8 | 0.0 |
| Other | (0.4) | 4.3 | 3.4 | 6.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Revenue | 188.1 | 178.7 | 187.2 | 178.0 | 156.5 | 166.8 | 153.6 | 147.4 |
| Operating and maintenance | 118.2 | 116.8 | 114.4 | 109.2 | 51.2 | 49.8 | 45.7 | 44.9 |
| Interest | 18.9 | 17.7 | 26.4 | 25.2 | 28.8 | 29.6 | 39.2 | 40.5 |
| Amortization of capital assets | 24.6 | 23.6 | 22.7 | 21.5 | 24.9 | 24.6 | 22.9 | 22.3 |
| Payments to municipalities | 18.6 | 16.3 | 13.3 | 10.9 | 4.0 | 5.8 | 4.8 | 3.3 |
| Saskatchewan taxes and royalties | 4.0 | 3.0 | 2.4 | 2.5 | 4.3 | 7.2 | 7.2 | 5.4 |
| Total expenses | 184.3 | 177.4 | 179.2 | 169.3 | 113.2 | 117.0 | 119.8 | 116.4 |
| Net earnings from operations before the following | 3.8 | 1.3 | 8.0 | 8.7 | 43.3 | 49.8 | 33.8 | 31.0 |
| Commodity revenue | 377.3 | 310.4 | 238.0 | 150.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cost of gas sold | 418.5 | 376.7 | 239.5 | 153.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net (loss) revenue from commodity sales | (41.2) | (66.3) | (1.5) | (2.9) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net earnings (loss) | (37.4) | (65.0) | 6.5 | 5.8 | 43.3 | 49.8 | 33.8 | 31.0 |
| **B. Statement of Financial Position** | | | | | | | | |
| Current assets | 233.4 | 280.5 | 211.1 | 134.3 | 54.6 | 58.5 | 68.8 | 38.2 |
| Property, plant equipment & natural gas in storage | 467.2 | 461.4 | 450.0 | 437.6 | 563.4 | 563.4 | 572.1 | 587.2 |
| Investments & other assets | 7.8 | 8.5 | 5.4 | 1.5 | 5.2 | 5.9 | 2.4 | 1.0 |
| Total assets | 708.4 | 750.4 | 666.5 | 573.4 | 623.2 | 627.8 | 643.3 | 626.4 |
| Current liabilities | 182.6 | 218.4 | 199.9 | 116.5 | 61.7 | 67.9 | 57.0 | 23.8 |
| Customer capital contributions | 67.0 | 64.9 | 63.4 | 59.6 | 34.2 | 29.6 | 29.7 | 27.7 |
| Long-term debt | 266.1 | 268.0 | 215.0 | 284.4 | 335.1 | 338.1 | 366.3 | 399.8 |
| Total liabilities | 515.7 | 551.3 | 478.3 | 460.5 | 431.0 | 435.6 | 453.0 | 451.3 |
| Total equity | 192.7 | 199.1 | 188.2 | 112.9 | 192.2 | 192.2 | 190.3 | 175.1 |
| Total liabilities and equity | 708.4 | 750.4 | 666.5 | 573.4 | 623.2 | 627.8 | 643.3 | 626.4 |

1 - The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated and Swan Valley Gas Corporation.

2 - The Intercompany category includes corporate assets, liabilities, revenues and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

| Other[1] | | | | Intercompany[2] | | | | Consolidated Entity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2002 | 2001 | 2000 | 1999 | 2002 | 2001 | 2000 | 1999 | 2002 | 2001 | 2000 | 1999 |
| **0.6** | 0.5 | 0.0 | 0.0 | **(3.6)** | (3.5) | (4.0) | 0.0 | **166.9** | 155.1 | 166.5 | 171.9 |
| **3.6** | 3.6 | 4.1 | 3.9 | **(59.2)** | (59.9) | (64.0) | (68.1) | **68.6** | 69.7 | 73.5 | 75.9 |
| **0.0** | 0.0 | 0.0 | 0.0 | **(13.8)** | 3.5 | 2.1 | 5.5 | **14.5** | 38.5 | 17.5 | 12.8 |
| **0.0** | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | **22.6** | 22.1 | 18.1 | 0.0 |
| **4.7** | 6.2 | 4.3 | 3.0 | **0.4** | (4.4) | (3.5) | (2.4) | **4.7** | 6.1 | 4.2 | 6.7 |
| **8.9** | 10.3 | 8.4 | 6.9 | **(76.2)** | (64.3) | (69.4) | (65.0) | **277.3** | 291.5 | 279.8 | 267.3 |
| **2.4** | 2.3 | 2.0 | 1.7 | **(60.0)** | (59.3) | (62.5) | (60.8) | **111.8** | 109.6 | 99.6 | 95.0 |
| **1.0** | 1.3 | 1.1 | 1.0 | **3.4** | 4.6 | (0.1) | 0.2 | **52.1** | 53.2 | 66.6 | 66.9 |
| **0.8** | 1.6 | 1.4 | 1.5 | **0.0** | 0.0 | (0.1) | 0.0 | **50.3** | 49.8 | 46.9 | 45.3 |
| **0.0** | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | **22.6** | 22.1 | 18.1 | 14.2 |
| **0.7** | 0.6 | 0.5 | 0.5 | **0.0** | 0.0 | 0.0 | (0.1) | **9.0** | 10.8 | 10.1 | 8.3 |
| **4.9** | 5.8 | 5.0 | 4.7 | **(56.6)** | (54.7) | (62.7) | (60.7) | **245.8** | 245.5 | 241.3 | 229.7 |
| **4.0** | 4.5 | 3.4 | 2.2 | **(19.6)** | (9.6) | (6.7) | (4.3) | **31.5** | 46.0 | 38.5 | 37.6 |
| **0.3** | 0.1 | 0.0 | 0.0 | **(0.3)** | 0.0 | 0.0 | (4.0) | **377.3** | 310.5 | 238.0 | 146.5 |
| **0.3** | 0.1 | 0.0 | 0.0 | **(16.9)** | (4.9) | (7.4) | (5.9) | **401.9** | 371.9 | 232.1 | 147.5 |
| **0.0** | 0.0 | 0.0 | 0.0 | **16.6** | 4.9 | 7.4 | 1.9 | **(24.6)** | (61.4) | 5.9 | (1.0) |
| **4.0** | 4.5 | 3.4 | 2.2 | **(3.0)** | (4.7) | 0.7 | (2.4) | **6.9** | (15.4) | 44.4 | 36.6 |
| **5.4** | 5.2 | 4.2 | 1.8 | **(61.1)** | (58.9) | (62.4) | (31.3) | **232.3** | 285.3 | 221.7 | 143.0 |
| **26.1** | 26.5 | 23.9 | 16.1 | **(3.1)** | (2.0) | (3.3) | (1.9) | **1,053.6** | 1,049.3 | 1,042.7 | 1,039.0 |
| **15.8** | 12.9 | 7.4 | 5.0 | **0.8** | (0.5) | 0.1 | (0.1) | **29.6** | 26.8 | 15.3 | 7.4 |
| **47.3** | 44.6 | 35.5 | 22.9 | **(63.4)** | (61.4) | (65.6) | (33.3) | **1,315.5** | 1,361.4 | 1,279.7 | 1,189.4 |
| **10.2** | 9.2 | 13.0 | 6.3 | **48.2** | 56.6 | (60.3) | (22.4) | **302.7** | 352.1 | 209.6 | 124.2 |
| **5.9** | 5.9 | 4.6 | 0.0 | **(3.0)** | (3.2) | (3.0) | (1.8) | **104.1** | 97.2 | 94.7 | 85.5 |
| **13.6** | 13.7 | 6.7 | 7.6 | **(0.3)** | (0.2) | 79.5 | 0.0 | **614.5** | 619.6 | 667.5 | 691.8 |
| **29.7** | 28.8 | 24.3 | 13.9 | **44.9** | 53.2 | 16.2 | (24.2) | **1,021.3** | 1,068.9 | 971.8 | 901.5 |
| **17.6** | 15.8 | 11.2 | 9.0 | **(108.3)** | (114.6) | (81.8) | (9.1) | **294.2** | 292.5 | 307.9 | 287.9 |
| **47.3** | 44.6 | 35.5 | 22.9 | **(63.4)** | (61.4) | (65.6) | (33.3) | **1,315.5** | 1,361.4 | 1,279.7 | 1,189.4 |

# FOUR-YEAR FINANCIAL SUMMARY

| **Entity:** | **Distribution** | | | | **Transportation** | | | |
|---|---|---|---|---|---|---|---|---|
| *millions of dollars* | 2002 | 2001 | 2000 | 1999 | 2002 | 2001 | 2000 | 1999 |
| **A. Statement of Earnings** | | | | | | | | |
| Delivery revenue | 169.9 | 158.1 | 170.5 | 171.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transportation and storage | 0.0 | 0.0 | 0.0 | 0.0 | 124.2 | 126.0 | 133.4 | 140.1 |
| Net sales from gas marketing | 0.0 | 0.0 | 0.0 | 0.0 | 28.3 | 35.0 | 15.4 | 7.3 |
| Revenue collected from municipalities | 18.6 | 16.3 | 13.3 | 0.0 | 4.0 | 5.8 | 4.8 | 0.0 |
| Other | (0.4) | 4.3 | 3.4 | 6.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Revenue | 188.1 | 178.7 | 187.2 | 178.0 | 156.5 | 166.8 | 153.6 | 147.4 |
| Operating and maintenance | 118.2 | 116.8 | 114.4 | 109.2 | 51.2 | 49.8 | 45.7 | 44.9 |
| Interest | 18.9 | 17.7 | 26.4 | 25.2 | 28.8 | 29.6 | 39.2 | 40.5 |
| Amortization of capital assets | 24.6 | 23.6 | 22.7 | 21.5 | 24.9 | 24.6 | 22.9 | 22.3 |
| Payments to municipalities | 18.6 | 16.3 | 13.3 | 10.9 | 4.0 | 5.8 | 4.8 | 3.3 |
| Saskatchewan taxes and royalties | 4.0 | 3.0 | 2.4 | 2.5 | 4.3 | 7.2 | 7.2 | 5.4 |
| Total expenses | 184.3 | 177.4 | 179.2 | 169.3 | 113.2 | 117.0 | 119.8 | 116.4 |
| Net earnings from operations before the following | 3.8 | 1.3 | 8.0 | 8.7 | 43.3 | 49.8 | 33.8 | 31.0 |
| Commodity revenue | 377.3 | 310.4 | 238.0 | 150.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cost of gas sold | 418.5 | 376.7 | 239.5 | 153.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net (loss) revenue from commodity sales | (41.2) | (66.3) | (1.5) | (2.9) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net earnings (loss) | (37.4) | (65.0) | 6.5 | 5.8 | 43.3 | 49.8 | 33.8 | 31.0 |
| **B. Statement of Financial Position** | | | | | | | | |
| Current assets | 233.4 | 280.5 | 211.1 | 134.3 | 54.6 | 58.5 | 68.8 | 38.2 |
| Property, plant equipment & natural gas in storage | 467.2 | 461.4 | 450.0 | 437.6 | 563.4 | 563.4 | 572.1 | 587.2 |
| Investments & other assets | 7.8 | 8.5 | 5.4 | 1.5 | 5.2 | 5.9 | 2.4 | 1.0 |
| Total assets | 708.4 | 750.4 | 666.5 | 573.4 | 623.2 | 627.8 | 643.3 | 626.4 |
| Current liabilities | 182.6 | 218.4 | 199.9 | 116.5 | 61.7 | 67.9 | 57.0 | 23.8 |
| Customer capital contributions | 67.0 | 64.9 | 63.4 | 59.6 | 34.2 | 29.6 | 29.7 | 27.7 |
| Long-term debt | 266.1 | 268.0 | 215.0 | 284.4 | 335.1 | 338.1 | 366.3 | 399.8 |
| Total liabilities | 515.7 | 551.3 | 478.3 | 460.5 | 431.0 | 435.6 | 453.0 | 451.3 |
| Total equity | 192.7 | 199.1 | 188.2 | 112.9 | 192.2 | 192.2 | 190.3 | 175.1 |
| Total liabilities and equity | 708.4 | 750.4 | 666.5 | 573.4 | 623.2 | 627.8 | 643.3 | 626.4 |

1 - The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated and Swan Valley Gas Corporation.

2 - The Intercompany category includes corporate assets, liabilities, revenues and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

| Other [1] | | | | Intercompany [2] | | | | Consolidated Entity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2002 | 2001 | 2000 | 1999 | 2002 | 2001 | 2000 | 1999 | 2002 | 2001 | 2000 | 1999 |
| 0.6 | 0.5 | 0.0 | 0.0 | (3.6) | (3.5) | (4.0) | 0.0 | 166.9 | 155.1 | 166.5 | 171.9 |
| 3.6 | 3.6 | 4.1 | 3.9 | (59.2) | (59.9) | (64.0) | (68.1) | 68.6 | 69.7 | 73.5 | 75.9 |
| 0.0 | 0.0 | 0.0 | 0.0 | (13.8) | 3.5 | 2.1 | 5.5 | 14.5 | 38.5 | 17.5 | 12.8 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 22.6 | 22.1 | 18.1 | 0.0 |
| 4.7 | 6.2 | 4.3 | 3.0 | 0.4 | (4.4) | (3.5) | (2.4) | 4.7 | 6.1 | 4.2 | 6.7 |
| 8.9 | 10.3 | 8.4 | 6.9 | (76.2) | (64.3) | (69.4) | (65.0) | 277.3 | 291.5 | 279.8 | 267.3 |
| 2.4 | 2.3 | 2.0 | 1.7 | (60.0) | (59.3) | (62.5) | (60.8) | 111.8 | 109.6 | 99.6 | 95.0 |
| 1.0 | 1.3 | 1.1 | 1.0 | 3.4 | 4.6 | (0.1) | 0.2 | 52.1 | 53.2 | 66.6 | 66.9 |
| 0.8 | 1.6 | 1.4 | 1.5 | 0.0 | 0.0 | (0.1) | 0.0 | 50.3 | 49.8 | 46.9 | 45.3 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 22.6 | 22.1 | 18.1 | 14.2 |
| 0.7 | 0.6 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | (0.1) | 9.0 | 10.8 | 10.1 | 8.3 |
| 4.9 | 5.8 | 5.0 | 4.7 | (56.6) | (54.7) | (62.7) | (60.7) | 245.8 | 245.5 | 241.3 | 229.7 |
| 4.0 | 4.5 | 3.4 | 2.2 | (19.6) | (9.6) | (6.7) | (4.3) | 31.5 | 46.0 | 38.5 | 37.6 |
| 0.3 | 0.1 | 0.0 | 0.0 | (0.3) | 0.0 | 0.0 | (4.0) | 377.3 | 310.5 | 238.0 | 146.5 |
| 0.3 | 0.1 | 0.0 | 0.0 | (16.9) | (4.9) | (7.4) | (5.9) | 401.9 | 371.9 | 232.1 | 147.5 |
| 0.0 | 0.0 | 0.0 | 0.0 | 16.6 | 4.9 | 7.4 | 1.9 | (24.6) | (61.4) | 5.9 | (1.0) |
| 4.0 | 4.5 | 3.4 | 2.2 | (3.0) | (4.7) | 0.7 | (2.4) | 6.9 | (15.4) | 44.4 | 36.6 |
| 5.4 | 5.2 | 4.2 | 1.8 | (61.1) | (58.9) | (62.4) | (31.3) | 232.3 | 285.3 | 221.7 | 143.0 |
| 26.1 | 26.5 | 23.9 | 16.1 | (3.1) | (2.0) | (3.3) | (1.9) | 1,053.6 | 1,049.3 | 1,042.7 | 1,039.0 |
| 15.8 | 12.9 | 7.4 | 5.0 | 0.8 | (0.5) | 0.1 | (0.1) | 29.6 | 26.8 | 15.3 | 7.4 |
| 47.3 | 44.6 | 35.5 | 22.9 | (63.4) | (61.4) | (65.6) | (33.3) | 1,315.5 | 1,361.4 | 1,279.7 | 1,189.4 |
| 10.2 | 9.2 | 13.0 | 6.3 | 48.2 | 56.6 | (60.3) | (22.4) | 302.7 | 352.1 | 209.6 | 124.2 |
| 5.9 | 5.9 | 4.6 | 0.0 | (3.0) | (3.2) | (3.0) | (1.8) | 104.1 | 97.2 | 94.7 | 85.5 |
| 13.6 | 13.7 | 6.7 | 7.6 | (0.3) | (0.2) | 79.5 | 0.0 | 614.5 | 619.6 | 667.5 | 691.8 |
| 29.7 | 28.8 | 24.3 | 13.9 | 44.9 | 53.2 | 16.2 | (24.2) | 1,021.3 | 1,068.9 | 971.8 | 901.5 |
| 17.6 | 15.8 | 11.2 | 9.0 | (108.3) | (114.6) | (81.8) | (9.1) | 294.2 | 292.5 | 307.9 | 287.9 |
| 47.3 | 44.6 | 35.5 | 22.9 | (63.4) | (61.4) | (65.6) | (33.3) | 1,315.5 | 1,361.4 | 1,279.7 | 1,189.4 |

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1000-1777 Victoria Avenue, Regina, Saskatchewan S4P 4K5
www.saskenergy.com

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